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**Citibank (Hong Kong) Limited**

**Financial Information Disclosure Statements**

**2016 Annual**

**CITIBANK (HONG KONG) LIMITED**

We enclose herewith the Financial Information Disclosure Statement for the year ended December 31, 2016, 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

April 28, 2017

**CITIBANK (HONG KONG) LIMITED**

The directors are pleased to announce the final results of Citibank (Hong Kong) Limited (the "Company") for the year ended December 31, 2016.

**2016 Full Year Results**

For the period under review, operating income was HK\$6,233 million (higher than prior year by 1%).

Operating expenses was HK\$3,913 million (higher than prior year by 2%).

Impairment losses on loans and advances was HK\$290 million (lower than prior year by 0.3%).

Profit after taxation was HK\$1,703 million (lower than prior year by 1%).

Loans and advances to customers was HK\$66.2 billion (lower than Dec 2015 by 3%). Customer deposits was HK\$138 billion (higher than Dec 2015 by 12%).

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

|  | <i>Note</i> | <i>2016</i>        | <i>2015</i>        |
|--|-------------|--------------------|--------------------|
| Interest income  | 2           | 3,362,042          | 3,251,961          |
| Interest expense   | 3           | (322,440)          | (388,627)          |
| <b>Net interest income</b>                                   |             | <b>3,039,602</b>   | <b>2,863,334</b>   |
| Net fee and commission income                                | 4           | 2,700,354          | 2,759,782          |
| Net trading income   | 5           | 502,953            | 558,429            |
| Net gain on disposal of available-for-sale financial assets  |             | -                  | -                  |
| Dividend income from unlisted investment                     |             | 4,606              | 2,817              |
| Other operating (loss)/income                                |             | (14,697)           | 1,997              |
| <b>Operating income</b>                                      |             | <b>6,232,818</b>   | <b>6,186,359</b>   |
| Staff costs  |             | (1,163,525)        | (1,166,069)        |
| Premises & equipment expenses                                |             | (348,900)          | (365,862)          |
| Depreciation expenses  |             | (54,561)           | (58,548)           |
| Other operating expenses                                     |             | (2,345,707)        | (2,250,554)        |
| <b>Operating expenses</b>                                    |             | <b>(3,912,693)</b> | <b>(3,841,033)</b> |
| <b>Operating profit before impairment</b>                    |             | <b>2,320,125</b>   | <b>2,345,326</b>   |
| Impairment losses on loans and advances                      | 6           | (290,364)          | (291,210)          |
| <b>Profit before taxation</b>                                |             | <b>2,029,761</b>   | <b>2,054,116</b>   |
| Taxation   | 7           | (326,931)          | (341,614)          |
| <b>Profit after taxation</b>                                 |             | <b>1,702,830</b>   | <b>1,712,502</b>   |
| <b>Other comprehensive income for the year, net of tax</b>   |             |                    |                    |
| Items that will not be classified to profit or loss:         |             |                    |                    |
| Remeasurement of defined benefit plan                        |             | (4,849)            | 823                |
| Items that may be classified subsequently to profit or loss: |             |                    |                    |
| Changes in fair value of available-for-sale financial assets |             | (11,939)           | (1,903)            |
| <b>Other comprehensive income for the year</b>               |             | <b>(16,788)</b>    | <b>(1,080)</b>     |
| <b>Total comprehensive income for the year</b>               |             | <b>1,686,042</b>   | <b>1,711,422</b>   |

## STATEMENT OF FINANCIAL POSITION

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

|  | <i>Note</i> | <i>2016</i> | <i>2015</i> |
|--|-------------|-------------|-------------|
| <b>Assets</b>  |             |             |             |
| Cash and balances with banks, central banks and other financial institutions |             | 9,689,133   | 9,789,245   |
| Placements with banks and other financial institutions                       | 8           | 9,324,682   | 7,800,520   |
| Loans and advances   | 9           | 94,683,352  | 94,900,259  |
| Trade bills  |             | 6,267       | 9,791       |
| Financial assets at fair value through profit or loss                        | 10          | 30,434,270  | 19,417,207  |
| Available-for-sale financial assets  | 11          | 15,185,197  | 12,830,673  |
| Property, plant and equipment  | 12          | 410,270     | 423,705     |
| Intangible assets  |             | 119,785     | 154,387     |
| Current tax assets   |             | 3,938       | 6,992       |
| Deferred tax assets  |             | 60,839      | 45,238      |
| Other assets   |             | 3,182,483   | 2,402,838   |
|  |             | 163,100,216 | 147,780,855 |
| <b>Liabilities</b>   |             |             |             |
| Deposits and balances from banks and other financial institutions            |             | 1,171,708   | 1,394,833   |
| Deposits from customers  | 13          | 137,692,990 | 123,477,350 |
| Trading financial liabilities  | 14          | 192,251     | 119,927     |
| Other liabilities  |             | 3,761,972   | 3,031,193   |
|  |             | 142,818,921 | 128,023,303 |
| <b>Equity</b>  |             |             |             |
| Share capital  |             | 7,348,440   | 7,348,440   |
| Reserves   | 15          | 12,932,855  | 12,409,112  |
|  |             | 20,281,295  | 19,757,552  |
|  |             | 163,100,216 | 147,780,855 |

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 |  | 66,896,287  | 69,199,975  |
| Deposits from customers         |  | 138,408,084 | 124,443,316 |

## CASH FLOW STATEMENT

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

|   | <i>Note</i> | <i>2016</i> | <i>2015</i> |
|---|-------------|-------------|-------------|
| <b>Operating activities</b>   |             |             |             |
| Profit before taxation  |             | 2,029,761   | 2,054,116   |
| Adjustments for:  |             |             |             |
| - Interest received on available-for-sale financial assets  |             | (63,292)    | (50,119)    |
| - Dividends received  |             | (4,606)     | (2,817)     |
| - Depreciation  |             | 54,561      | 58,548      |
| - Amortization of intangible assets   |             | 34,602      | 41,834      |
| - Impairment losses   |             | 290,364     | 291,210     |
| - Equity-settled share-based payment expense  |             | 329         | (9,884)     |
| - Write-off of property, plant and equipment and intangible assets  |             | 10,163      | 14,160      |
| - Remeasurement of defined benefit plan   |             | (4,849)     | 823         |
|   |             | 2,347,033   | 2,397,871   |
| <b>(Increase)/decrease in operating assets:</b>   |             |             |             |
| Financial assets at fair value through profit or loss   |             | (2,241,568) | (1,116,016) |
| Cash and balances with banks, central banks and other financial institutions with original maturity beyond three months |             | 433,433     | (286,942)   |
| Loans and advances and trade bills  |             | (69,933)    | (4,226,081) |
| Gross placements with banks and other financial institutions with original maturity beyond three months                 |             | (3,006,136) | 884,912     |
| Other assets  |             | (779,645)   | 857,040     |
|   |             | (5,663,849) | (3,887,087) |
| <b>Increase/(decrease) in operating liabilities</b>   |             |             |             |
| Trading financial liabilities   |             | 72,324      | (281,466)   |
| Deposits from customers   |             | 14,215,640  | 13,308,105  |
| Deposits from banks and other financial institutions  |             | (328,275)   | (3,413,033) |
| Other liabilities   |             | 732,010     | (645,426)   |
|   |             | 14,691,699  | 8,968,180   |
| <b>Cash generated from operations</b>   |             | 11,374,883  | 7,478,964   |

## CASH FLOW STATEMENT (CONTINUED)

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

|  | <i>Note</i> | <i>2016</i>  | <i>2015</i>  |
|--|-------------|--------------|--------------|
| Income tax paid  |             |              |              |
| - Hong Kong Profits Tax paid   |             | (336,833)    | (401,231)    |
| - Overseas Tax paid  |             | (524)        | (123)        |
| <b>Net cash generated from operating activities</b>  |             | 11,037,526   | 7,077,610    |
| <b>Investing activities</b>  |             |              |              |
| Payment for purchase of intangible assets  |             | -            | (47,302)     |
| Payment for purchase of property, plant and equipment  |             | (51,289)     | (42,361)     |
| Proceeds from sale of available-for-sale financial assets with original maturity beyond three months   |             | 12,830,673   | 13,936,672   |
| Payment for purchase of available-for-sale financial assets with original maturity beyond three months |             | (15,199,496) | (12,832,281) |
| Interest received on available-for-sale financial assets   |             | 63,292       | 50,119       |
| Dividends received   |             | 4,606        | 2,817        |
| <b>Net cash (used in)/generated from investing activities</b>  |             | (2,352,214)  | 1,067,664    |
| <b>Financing activities</b>  |             |              |              |
| Dividends paid to equity shareholder of the Company  |             | (1,163,620)  | (930,192)    |
| <b>Net cash used in financing activities</b>   |             | (1,163,620)  | (930,192)    |
| <b>Net increase in cash and cash equivalents</b>   |             | 7,521,692    | 7,215,082    |
| <b>Cash and cash equivalents at 1 January</b>  |             | 23,449,365   | 16,234,283   |
| <b>Cash and cash equivalents at 31 December</b>  | 16          | 30,971,057   | 23,449,365   |
| <b>Cash flows from operating activities include:</b>   |             |              |              |
| Interest received  |             | 3,318,375    | 3,223,449    |
| Interest paid  |             | (334,479)    | (393,012)    |

## NOTES ON THE FINANCIAL STATEMENTS

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

### 1 Significant accounting policies

Citibank (Hong Kong) Limited (the “Company”) is a licensed bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

#### (a) *Statement of compliance*

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. Significant accounting policies adopted by the Company are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company.

#### (b) *Basis of preparation of the financial statements*

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair values as explained in the accounting policies set out below:

- obligations under share-based incentive plans (see note 1(h)(iv)); and
- financial instruments classified as trading, designated at fair value through profit or loss and available for-sale (see note 1(d)(ii)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.



## 1 Significant accounting policies (continued)

### (b) Basis of preparation of the financial statements (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### (c) Intangible assets

Intangible assets include premium paid on acquisition of customer relationships, acquired computer software licences and capitalized development costs of computer software programs. Expenditure on development of computer software programs is capitalized if the programs are technologically and commercially feasible and the Company has the intention and sufficient resources to complete the development. The expenditure capitalized includes the direct labor, costs of materials, and an appropriate proportion of overheads. Intangible assets are stated at cost less accumulated amortization and impairment losses (see note 1(f)).

Amortization of customer relationships is charged to the profit or loss based on the pattern in which the future economic benefits on the related deposits are likely to accrue to the Company. Amortization of other intangible assets with finite useful lives is charged to the profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

|  |              |
|--|--------------|
| - customer relationships                                     | 10 years     |
| - acquired computer software licenses                        | 1 - 3 years  |
| - capitalized development costs of computer software program | 5 - 10 years |
| - exclusivity right  | 4 years      |

Both the period and method of amortization are reviewed annually.

Intangible assets are not amortized while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out above.

## 1 Significant accounting policies (continued)

### (d) *Financial instruments*

#### (i) Initial recognition

The Company classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities held at fair value through profit or loss are expensed immediately.

The Company recognizes financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets is recognized using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

#### (ii) Categorization

##### *Fair value through profit or loss*

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

## 1 Significant accounting policies (continued)

### (d) Financial instruments (continued)

#### (ii) Categorization (continued)

##### *Fair value through profit or loss (continued)*

Financial instruments are designated at fair value through profit or loss upon initial recognition when the assets or liabilities are managed, evaluated and reported internally on a fair value basis.

Financial assets and liabilities under this category are carried at fair value. Changes in the fair value are included in the profit or loss in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the profit or loss.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Company intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Company, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (c) those where the Company may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables comprise loans and advances to customers, trade bills, balances and placements with banks and other financial institutions.

Loans and receivables are carried at amortized cost using the effective interest method, less impairment losses, if any (see note 1(f)).

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale financial assets are carried at fair value. Unrealized gains and losses arising from changes in the fair value are recognized directly in the revaluation reserve, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognized in the profit or loss.

## 1 Significant accounting policies (continued)

### (d) Financial instruments (continued)

#### (ii) Categorization (continued)

##### *Available-for-sale financial assets (continued)*

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are released from the revaluation reserve.

##### *Other financial liabilities*

Financial liabilities, other than those designated at fair value through profit or loss, are measured at amortized cost using the effective interest method.

#### (iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the financial position date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognized stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the financial position date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the financial position date.

## 1 Significant accounting policies (continued)

### (d) *Financial instruments (continued)*

#### (iv) Derecognition

A financial asset is derecognized when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expires.

The Company uses the first-in first-out method to determine realized gains and losses to be recognized in profit or loss on derecognition.

#### (v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet where there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

#### (vi) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in the profit or loss.

When the embedded derivative is separated, the host contract is accounted for in accordance with note (ii) above.

## 1 Significant accounting policies (continued)

### (e) *Property, plant and equipment*

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(f)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

|  |              |
|--|--------------|
| - Buildings held for own use carried at cost | 50 years     |
| - Plant, machinery and other assets          | 3 - 10 years |
| - Installations                              | 3 - 10 years |

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the profit or loss on the date of retirement or disposal.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

### (f) *Impairment of assets*

The carrying amount of the Company's assets are reviewed at each financial position date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Company about one or more of the following loss events which has an impact on the future cash flows on the assets that can be estimated reliably:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as default or delinquency in interest or principal payments;
- it becoming probably that the borrower will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- disappearance of an active market for financial assets because of financial difficulties; and
- a significant or prolonged decline in the fair value of an investment instrument below its cost.

If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to profit or loss.

## 1 Significant accounting policies (continued)

### (f) *Impairment of assets (continued)*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of loans and receivables, which are measured at amortized cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Company is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in the profit or loss.

### (i) Loans and receivables

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances, and collective impairment allowances.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgments about the borrower's financial situation and the net realizable value of any underlying collateral or guarantees in favour of the Company. Each impaired asset is assessed on its own merits.

In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Company makes assumptions both to define the way the Company models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

## 1 Significant accounting policies (continued)

### (f) Impairment of assets (continued)

#### (i) Loans and receivables (continued)

The accuracy of the impairment allowances the Company makes depends on how well the Company can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgment, the Company believes that the impairment allowances on loans and advances to customers are reasonable and supportable.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to the profit or loss. A reversal of impairment losses is limited to the loans and receivables carrying amount that would have been determined had no impairment loss been recognized in prior years.

When there is no reasonable prospect of recovery, the loan and the related interest receivables are written off.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Company has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or past due.

#### (ii) Available-for-sale financial assets

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognized directly in equity is removed from equity and is recognized in profit or loss. The amount of the cumulative loss that is recognized in the profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in profit or loss.

Impairment losses recognized in the profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognized directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognized. Reversals of impairment losses in such circumstances are recognized in the profit or loss.



## 1 Significant accounting policies (continued)

### (f) Impairment of assets (continued)

#### (iii) Other assets

Internal and external sources of information are reviewed at each statement of financial position date to identify indications that the following assets may be impaired or an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment; and
- intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

#### - Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

#### - Recognition of impairment losses

An impairment loss is recognized in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell (if measurable), or value in use (if determinable).

## 1 Significant accounting policies (continued)

### (f) *Impairment of assets (continued)*

#### (iii) Other assets (continued)

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognized.

### (g) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, balances with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

### (h) *Employee benefits*

#### (i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

## 1 Significant accounting policies (continued)

### (h) *Employee benefits (continued)*

#### (ii) Defined benefit retirement plan obligations

The Company's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense/(income) on the net defined benefit liability/(asset) are recognized in profit or loss. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from the employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognized as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognized. Net interest expense/ (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/(asset). The discount rate is the yield at the statement of financial position date on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligations.

Remeasurements arising from defined benefit retirement plans are recognized in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)). The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

#### (iii) Termination benefits

Termination benefits are recognized at the earlier of when the Company can no longer withdraw the offer of those benefits and when it recognizes restructuring costs involving the payment of termination benefits.

## 1 Significant accounting policies (continued)

### (h) *Employee benefits (continued)*

#### (iv) Share-based payments

The Company participates in a number of Citigroup Inc. (“Citigroup”) share-based incentive plans under which Citigroup grants shares to the Company’s employees. Pursuant to a separate Stock Plans Affiliate Participation Agreement (“SPAPA”), the Company reimburses Citigroup for the fair value of the share-based incentive awards delivered to the Company’s employees under these plans. The Company accounts for these plans as equity-settled plans, with separate accounting for its associated obligations to make payments to Citigroup. The Company recognizes the fair value of the awards at grant date as compensation expense over the vesting period with a corresponding credit in equity as a capital contribution from Citigroup. The Company’s liability to Citigroup under the SPAPA is remeasured annually until settlement date and any changes in value are recognized in equity.

### (i) *Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in the profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

## 1 Significant accounting policies (continued)

### (i) *Income tax (continued)*

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each statement of financial position date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

## 1 Significant accounting policies (continued)

### (j) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (k) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in the profit or loss as follows:

#### (i) Interest income

Interest income for all interest-bearing financial instruments is recognized in the profit or loss on an accruals basis using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Cash rebates granted in relation to residential mortgage loans are capitalized and amortized to the profit or loss over their expected life.

For impaired loans, the accrual of interest income based on the original terms of the loan is discontinued, but any increase in the present value of impaired loans due to the passage of time is reported as interest income.

## 1 Significant accounting policies (continued)

### (k) Revenue recognition (continued)

#### (ii) Membership fee income

Annual card membership fees are deferred and amortized on a straight-line basis over twelve months which represent the membership period.

#### (iii) Finance charges

Finance charges are mainly derived from interest income on cash advances and other amounts due from cardmembers.

Finance charges on cardmember receivables, excluding cash advances, are recognized from the respective transaction dates, on balances which remain unpaid as at the payment due date, to the extent they are considered recoverable, and at the rates applicable.

Finance charges on cash advance receivables are recognized from the date of the advance, to the extent they are considered recoverable on the principal outstanding and at the rates applicable.

#### (iv) Commission income

Commission income is recognized on a time-apportioned basis on the assets under management outstanding and at the rate applicable. For the card business, commission income is recognized in the financial statements on the date when the sales transaction is recorded, at which time the income is deemed to be earned.

#### (v) Service fee income

Service fee income is recognized when services are rendered.

### (l) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the statement of financial position date. Exchange gains and losses are recognized in the profit or loss.

## 1 Significant accounting policies (continued)

### (l) *Translation of foreign currencies (continued)*

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

Exchange differences relating to investments at fair value through profit or loss and derivative financial instruments are included in gains less losses from trading securities or financial instruments designated at fair value through profit or loss. All other exchange differences relating to monetary items are presented as gains less losses from dealing in foreign currencies in the profit or loss. Differences arising on translation of available-for-sale equity instruments are recognized in other comprehensive income and accumulated in equity.

### (m) *Related parties*

- (a) A person, or a close member of that person's family, is related to the Company if that person:
  - (i) has control or joint control over the Company;
  - (ii) has significant influence over the Company; or
  - (iii) is a member of the key management personnel of the Company or the Company's parent.
  
- (b) An entity is related to the Company if any of the following conditions applies:
  - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management services to the Company or the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.



**2 Interest income**

|   | 2016      | 2015      |
|---|-----------|-----------|
| Interest income on loans to customers   | 2,644,115 | 2,639,121 |
| Interest income on placements with banks and other financial institutions                           | 542,586   | 463,824   |
| Interest income on investments  |           |           |
| - Listed  | 24,084    | 32,997    |
| - Unlisted  | 39,208    | 17,122    |
| Interest income on financial instruments that are not measured at fair value through profit or loss | 3,249,993 | 3,153,064 |
| Interest income on financial assets designated at fair value through profit or loss                 |           |           |
| - Listed  | 1,398     | 1,422     |
| - Unlisted  | 110,651   | 97,475    |
| Total interest income from all financial assets   | 3,362,042 | 3,251,961 |

Included in the above is interest income accrued on impaired financial assets of HK\$5,218 thousand (2015: HK\$7,301 thousand).

**3 Interest expense**

|  | 2016    | 2015    |
|--|---------|---------|
| Interest expense on deposits from customers  | 306,331 | 364,150 |
| Interest expense on deposits from banks and other financial institutions                             | 16,109  | 24,477  |
| Interest expense on financial instruments that are not measured at fair value through profit or loss | 322,440 | 388,627 |

**4 Net fee and commission income**

|   | 2016      | 2015      |
|---|-----------|-----------|
| Fee and commission income from retail banking | 1,031,694 | 1,196,335 |
| Fee and commission income from card business  | 1,403,548 | 1,497,912 |
| Service fee from group companies              | 821,099   | 632,069   |
|   | 3,256,341 | 3,326,316 |
| Fee and commission expenses                   | (555,987) | (566,534) |
|   | 2,700,354 | 2,759,782 |

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.

**5 Net trading income**

|  | 2016    | 2015    |
|--|---------|---------|
| Net gain from dealing in foreign exchange                                      | 504,615 | 559,863 |
| Net gain from trading interest rate derivatives                                | -       | 656     |
| Net loss from financial assets designated at fair value through profit or loss | (1,662) | (2,090) |
|  | 502,953 | 558,429 |
|  | 502,953 | 558,429 |

**6 Impairment losses on loans and advances**

|   | 2016      | 2015      |
|---|-----------|-----------|
| Impairment losses charged on loans and advances |           |           |
| Individually assessed:                          |           |           |
| - New provisions (note9(b))                     | 377,150   | 355,175   |
| - Releases (note9(b))                           | (121,896) | (125,493) |
|   | 255,254   | 229,682   |
| Collectively assessed:                          |           |           |
| - New provisions (note9(b))                     | 35,110    | 61,528    |
|   | 290,364   | 291,210   |
|   | 290,364   | 291,210   |

**7 Taxation**

|                                     | 2016     | 2015     |
|-------------------------------------|----------|----------|
| Provision for Hong Kong Profits Tax | 339,701  | 352,903  |
| Overseas Taxation                   | 524      | 123      |
| Deferred Taxation                   | (13,294) | (11,412) |
|                                     | 326,931  | 341,614  |
|                                     | 326,931  | 341,614  |

The provision for Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year.

**8 Placements with banks and other financial institutions**

|   | 2016      | 2015      |
|---|-----------|-----------|
| Maturing between one month and one year | 9,324,682 | 7,800,520 |
|   | 9,324,682 | 7,800,520 |

## 9 Loans and advances

### (a) Loans and advances less impairment

|                                       | 2016       | 2015       |
|---------------------------------------|------------|------------|
| Gross loans and advances to customers | 66,483,376 | 68,501,083 |
| Less: Impairment allowances           |            |            |
| - individually assessed (note (b))    | -          | -          |
| - collectively assessed (note (b))    | (302,183)  | (267,073)  |
|                                       | 66,181,193 | 68,234,010 |
| Gross loans and advances to banks     | 28,502,159 | 26,666,249 |
|                                       | 94,683,352 | 94,900,259 |

### (b) Movement in impairment allowances on loans and advances

|                        | <i>Individually<br/>assessed</i> | <i>Collectively<br/>assessed</i> | <i>Total</i> |
|------------------------|----------------------------------|----------------------------------|--------------|
| At January 1, 2016     | -                                | 267,073                          | 267,073      |
| New provision (note 6) | 377,150                          | 35,110                           | 412,260      |
| Recoveries             | 121,896                          | -                                | 121,896      |
| Releases (note 6)      | (121,896)                        | -                                | (121,896)    |
| Amounts written off    | (377,150)                        | -                                | (377,150)    |
| At December 31, 2016   | -                                | 302,183                          | 302,183      |
| At January 1, 2015     | -                                | 205,545                          | 205,545      |
| New provision (note 6) | 355,175                          | 61,528                           | 416,703      |
| Recoveries             | 125,493                          | -                                | 125,493      |
| Releases (note 6)      | (125,493)                        | -                                | (125,493)    |
| Amounts written off    | (355,175)                        | -                                | (355,175)    |
| At December 31, 2015   | -                                | 267,073                          | 267,073      |

## 9 Loans and advances (continued)

### (c) Analysis of amount of loans and advances to customers classified into industry categories

| <b>Loans and advances to customers for use in Hong Kong</b>       | <i>2016</i>              | <i>2015</i>              |
|---|--------------------------|--------------------------|
| Industrial, commercial and financial                              |                          |                          |
| - Property investment   | 4,299,356                | 4,842,174                |
| - Wholesale and retail trade                                      | 372,349                  | 427,386                  |
| - Manufacturing   | 92,770                   | 107,821                  |
| - Others  | 149,860                  | 155,204                  |
| Individuals   |                          |                          |
| - Loans for the purchase of other residential properties          | 35,291,200               | 36,405,058               |
| - Credit card advances  | 13,560,224               | 13,601,506               |
| - Others  | 13,285,781               | 13,724,305               |
|   | <u>67,051,540</u>        | <u>69,263,454</u>        |
| Netting adjustment on account of foreign currency margin products | (715,094)                | (965,965)                |
| Total loans and advances to customers for use in Hong Kong        | 66,336,446               | 68,297,489               |
| Loans and advances to customers for use outside Hong Kong         | 12,765                   | 17,631                   |
| Trade finance   | 134,165                  | 185,963                  |
| Total   | <u><u>66,483,376</u></u> | <u><u>68,501,083</u></u> |

The above economic sector analysis is based on the categories and definitions used by the Hong Kong Monetary Authority (“HKMA”).

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.

### (d) Impaired loans and advances to customers

|  | <u>2016</u>          |   | <u>2015</u>          |   |
|--|----------------------|---|----------------------|---|
|  | <i>Amount</i>        | <i>% of total loans and advances to customers</i> | <i>Amount</i>        | <i>% of total loans and advances to customers</i> |
| Overdue loans and advances to customers        | 45,688               | 0.07%   | 47,386               | 0.07%   |
| Rescheduled loans and advances to customers    | <u>25,194</u>        | 0.04%   | <u>27,193</u>        | 0.04%   |
| Gross impaired loans and advances to customers | <u><u>70,882</u></u> | 0.11%   | <u><u>74,579</u></u> | 0.11%   |

The gross impaired loans and advances disclosed above correspond to the total loans and advances to customers.

**10 Financial assets at fair value through profit or loss**

|   | 2016       | 2015       |
|---|------------|------------|
| <i>Financial assets designated at fair value through profit or loss</i> |            |            |
| Treasury bills (including exchange fund notes)                          | 30,350,233 | 19,311,394 |
| <i>Trading financial assets</i>   |            |            |
| Positive fair value of derivatives (note 17b)                           | 84,037     | 105,813    |
|   | 30,434,270 | 19,417,207 |
| Issued by:  |            |            |
| - Sovereigns  | 30,350,233 | 19,311,394 |
| Analyzed by place of listing:   |            |            |
| - Listed in Hong Kong   | 55,323     | 58,166     |
| - Unlisted  | 30,294,910 | 19,253,228 |
|   | 30,350,233 | 19,311,394 |

**11 Available-for-sale financial assets**

|                               | 2016       | 2015       |
|-------------------------------|------------|------------|
| Exchange fund notes           | 13,930,687 | 11,551,395 |
| Debt securities               | 1,254,510  | 1,279,278  |
|                               | 15,185,197 | 12,830,673 |
| Issued by:                    |            |            |
| - Sovereigns                  | 13,930,687 | 11,551,395 |
| - Banks                       | 1,254,510  | 1,279,278  |
|                               | 15,185,197 | 12,830,673 |
| Analyzed by place of listing: |            |            |
| - Listed outside Hong Kong    | 1,024,626  | 1,044,064  |
| - Unlisted                    | 14,160,571 | 11,786,609 |
|                               | 15,185,197 | 12,830,673 |

## 12 Property, plant and equipment

|                           | <i>Buildings held<br/>for own use<br/>carried at cost</i> | <i>Plant,<br/>machinery and<br/>other assets</i> | <i>Installations</i> | <i>Construction in<br/>progress</i> | <i>Total preprey,<br/>plant and<br/>equipment</i> |
|---------------------------|---|--|----------------------|-------------------------------------|---|
| <b>Cost or valuation:</b> |   |  |                      |                                     |   |
| At January 1, 2016        | 405,528   | 153,242  | 221,762              | 16,392                              | 796,924   |
| Additions                 | -   | 11,226   | 115                  | 39,948                              | 51,289  |
| Transfer                  | -   | 3,170  | 10,924               | (14,094)                            | -   |
| Write-offs                | -   | (6,734)  | (14,235)             | (9,245)                             | (30,214)  |
| At December 31, 2016      | <u>405,528</u>  | <u>160,904</u>                                   | <u>218,566</u>       | <u>33,001</u>                       | <u>817,999</u>                                    |

**Accumulated depreciation:**

|                      |               |                |                |          |                |
|----------------------|---------------|----------------|----------------|----------|----------------|
| At January 1, 2016   | 88,541        | 126,928        | 157,750        | -        | 373,219        |
| Charge for the year  | 8,111         | 12,843         | 33,607         | -        | 54,561         |
| Write-offs           | -             | (6,648)        | (13,403)       | -        | (20,051)       |
| At December 31, 2016 | <u>96,652</u> | <u>133,123</u> | <u>177,954</u> | <u>-</u> | <u>407,729</u> |

**Net book value:**

|                      |                |               |               |               |                |
|----------------------|----------------|---------------|---------------|---------------|----------------|
| At December 31, 2016 | <u>308,876</u> | <u>27,781</u> | <u>40,612</u> | <u>33,001</u> | <u>410,270</u> |
|----------------------|----------------|---------------|---------------|---------------|----------------|

**Cost or valuation:**

|                      |                |                |                |               |                |
|----------------------|----------------|----------------|----------------|---------------|----------------|
| At January 1, 2015   | 405,528        | 155,025        | 222,965        | 29,012        | 812,530        |
| Additions            | -              | 8,670          | -              | 33,691        | 42,361         |
| Transfer             | -              | 2,751          | 36,041         | (38,792)      | -              |
| Write-offs           | -              | (13,204)       | (37,244)       | (7,519)       | (57,967)       |
| At December 31, 2015 | <u>405,528</u> | <u>153,242</u> | <u>221,762</u> | <u>16,392</u> | <u>796,924</u> |

**Accumulated depreciation:**

|                      |               |                |                |          |                |
|----------------------|---------------|----------------|----------------|----------|----------------|
| At January 1, 2015   | 80,430        | 121,107        | 156,941        | -        | 358,478        |
| Charge for the year  | 8,111         | 18,622         | 31,815         | -        | 58,548         |
| Write-offs           | -             | (12,801)       | (31,006)       | -        | (43,807)       |
| At December 31, 2015 | <u>88,541</u> | <u>126,928</u> | <u>157,750</u> | <u>-</u> | <u>373,219</u> |

**Net book value:**

|                      |                |               |               |               |                |
|----------------------|----------------|---------------|---------------|---------------|----------------|
| At December 31, 2015 | <u>316,987</u> | <u>26,314</u> | <u>64,012</u> | <u>16,392</u> | <u>423,705</u> |
|----------------------|----------------|---------------|---------------|---------------|----------------|

**13 Deposits from customers**

|                                      | 2016        | 2015        |
|--------------------------------------|-------------|-------------|
| Demand deposits and current accounts | 30,030,645  | 24,522,673  |
| Savings deposits                     | 81,937,884  | 70,648,535  |
| Time, call and notice deposits       | 25,724,461  | 28,306,142  |
|                                      | 137,692,990 | 123,477,350 |
|                                      | 137,692,990 | 123,477,350 |

**14 Trading financial liabilities**

|   | 2016    | 2015    |
|---|---------|---------|
| Negative fair value of derivatives (note 17b) | 192,251 | 119,927 |
|   | 192,251 | 119,927 |
|   | 192,251 | 119,927 |

**15 Reserves**

|  | <i>Capital<br/>reserves</i> | <i>Available-for-<br/>sale<br/>revaluation<br/>reserve</i> | <i>Retained<br/>profits</i> | <i>Total</i> |
|--|-----------------------------|--|-----------------------------|--------------|
| At January 1, 2016                               | (11,061)                    | 3,579  | 12,416,594                  | 12,409,112   |
| Changes in reserves for 2016:                    |                             |  |                             |              |
| Share-based payment transactions, net of tax     | 1,321                       | -  | -                           | 1,321        |
| Total comprehensive income for the year          | -                           | (11,939)   | 1,697,981                   | 1,686,042    |
| Dividend declared in respect of the current year | -                           | -  | (1,163,620)                 | (1,163,620)  |
| At December 31, 2016                             | (9,740)                     | (8,360)  | 12,950,955                  | 12,932,855   |
|  | (9,740)                     | (8,360)  | 12,950,955                  | 12,932,855   |
| At January 1, 2015                               | (4,413)                     | 5,482  | 11,633,461                  | 11,634,530   |
| Changes in reserves for 2015:                    |                             |  |                             |              |
| Share-based payment transactions, net of tax     | (6,648)                     | -  | -                           | (6,648)      |
| Total comprehensive income for the year          | -                           | (1,903)  | 1,713,325                   | 1,711,422    |
| Dividend declared in respect of the current year | -                           | -  | (930,192)                   | (930,192)    |
| At December 31, 2015                             | (11,061)                    | 3,579  | 12,416,594                  | 12,409,112   |
|  | (11,061)                    | 3,579  | 12,416,594                  | 12,409,112   |

**15 Reserves (continued)**

**(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 in notes 1(d) and 1(f).

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 in notes 1(h)(iv).

**(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 December 31, 2016, the regulatory reserve is earmarked at HK\$1,014,907 thousand (2015: HK\$1,323,722 thousand).

**(c) Distributability of reserves**

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK\$11,917,948 thousand (2015: HK\$11,085,390 thousand).

**(d)** The directors did not propose any final dividend (2015: \$Nil) after the year end.



## 16 Cash and cash equivalents

### (a) Cash and cash equivalents in the cash flow statement

|   | 2016       | 2015       |
|---|------------|------------|
| Cash and balances with banks, central banks and other financial institutions with original maturity within three months | 9,122,287  | 8,788,966  |
| Placements with banks and other financial institutions with original maturity within three months                       | 329,835    | 1,811,809  |
| Financial assets designated at fair value through profit or loss with original maturity within three months             | 21,680,602 | 12,905,107 |
|   | 31,132,724 | 23,505,882 |
| Less: Overdrafts  | (161,667)  | (56,517)   |
| Cash and cash equivalents in the cash flow statement  | 30,971,057 | 23,449,365 |

### (b) Reconciliation with the statement of financial position

|  | 2016         | 2015         |
|--|--------------|--------------|
| Cash and balances with banks, central banks and other financial institutions | 9,689,133    | 9,789,245    |
| Placements with banks and other financial institutions (note 8)              | 9,324,682    | 7,800,520    |
| Available-for-sale financial assets  |              |              |
| - Exchange fund notes (note 11)  | 13,930,687   | 11,551,395   |
| - Debt securities (note 11)  | 1,254,510    | 1,279,278    |
| Financial assets designated at fair value through profit or loss             |              |              |
| - Treasury bills (note 10)   | 30,350,233   | 19,311,394   |
| Amounts shown in the statement of financial position                         | 64,549,245   | 49,731,832   |
| Less: Amounts with an original maturity of beyond three months               | (33,416,521) | (26,225,950) |
| Less: Overdrafts   | (161,667)    | (56,517)     |
| Cash and cash equivalents in the cash flow statement                         | 30,971,057   | 23,449,365   |

## 17 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.

### (a) 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.

|                             | 2016       | 2015       |
|-----------------------------|------------|------------|
| <i>Currency derivatives</i> |            |            |
| Forwards and futures        | 17,317,895 | 18,768,665 |
| Options purchased           | 2,470,451  | 2,993,290  |
| Options written             | 2,470,451  | 2,993,290  |
|                             | 22,258,797 | 24,755,245 |

Currency forwards and futures are acquired or incurred principally for hedging purposes. Currency options are customer driven transactions and hedging transactions. The Company has elected not to use hedge accounting.

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

|                      | 2016              |                    |  | 2015              |                    |  |
|----------------------|-------------------|--------------------|--|-------------------|--------------------|--|
|                      | <i>Fair value</i> |                    | <i>Credit risk<br/>weighted<br/>amount</i> | <i>Fair value</i> |                    | <i>Credit risk<br/>weighted<br/>amount</i> |
|                      | <i>Assets</i>     | <i>Liabilities</i> |  | <i>Assets</i>     | <i>Liabilities</i> |  |
| Currency derivatives | 84,037            | 192,251            | 97,589                                     | 105,813           | 119,927            | 104,993                                    |

The credit equivalent amounts are assessed in accordance with the Banking (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 fair value and credit risk weighted amounts do not take into account any bilateral netting arrangements entered into during the year and accordingly these amounts are shown on a gross basis.

## 18 Contingent liabilities and commitments

|   | 2016       | 2015       |
|---|------------|------------|
| <b>Contractual or notional amounts</b>                |            |            |
| Trade-related contingencies                           | 10,138     | 6,950      |
| Forward forward deposits placed                       | 5,922      | -          |
| Other commitments                                     |            |            |
| - with an original maturity of not more than one year | 488,207    | 261,238    |
| - with an original maturity of more than one year     | 1,028,293  | 1,126,583  |
| - which are unconditionally cancellable               | 68,809,688 | 71,115,651 |
|   | 70,342,248 | 72,510,422 |
|   | 239,089    | 238,148    |
| Credit risk weighted amounts                          |            |            |

Contingent liabilities and commitments are 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 Banking (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%.

## 19 Financial risk management

This section presents information about the Company's exposure to and its management and control of risks, in particular, the primary risks associated with its use of financial instruments:

- credit risk: loss resulting from customer or counterparty default and arises on credit exposure in all forms, including settlement risk.
- market risk: risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and market risk comprises currency risk, interest rate risk and other price risk.
- liquidity and funding risk: risk that the Company is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments.
- operational risk: risk arising from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputation loss.

## 19 Financial risk management (continued)

The Company has established policies and procedures to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and limits continually by means of reliable and up-to-date management and information systems. The Company continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Internal Audit also performs regular audits to ensure compliance with the policies and procedures.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risks, and the Company's management of capital.

### (a) *Credit risk management*

This category includes credit and counterparty risks from loans and advances and counterparty risks from trading and investing activities and also third parties to either hold, collect or settle the funds on behalf of the Company. The Company identifies and manages this risk through its (a) target market definitions, (b) credit approval process, (c) post-disbursement monitoring and (d) remedial management procedures.

Credit Risk Management is responsible for the quality and performance of credit portfolios of the Company, through which it can pursue a long-term sustainable and profitable growth. It manages, monitors and controls all credit risks within the Company through:

- formulating credit policies on new acquisition, portfolio management, collection and recovery for credit portfolios;
- developing risk acceptance criteria for portfolios towards segments, sectors, industries, usages and collaterals;
- undertaking an independent review and objective assessment of credit risks;
- controlling exposures to portfolios, industries, counterparties and countries etc by setting limits;
- monitoring the performance of credit portfolios, including collateral positions, and developing effective remedial strategies;
- evaluating potentially adverse scenario that may impact the quality and performance of credit portfolios;
- establishing key risk indicators that assess the market situation on on-going basis; and
- providing advice and guidance to business units on various credit-related issues.

The Company's credit risk arises mainly from its consumer and treasury operations.

## 19 Financial risk management (continued)

### (a) Credit risk management (continued)

#### *Consumer credit risk*

The Company's consumer credit policy, approval process and credit delegation authority are designed for the fact that there are high volumes of relatively homogeneous, small value transactions in each consumer loan category. Because of the nature of consumer banking, the credit policies are based primarily on statistical analyzes of risks with respect to different products and types of customers. The Company has established methodologies on risk assessment for new product launch as well as periodic review of the terms of existing products, so as to achieve the desired customer profiles.

#### *Credit risk for treasury transactions*

The Company's treasury activities are predominantly with group entities or with institutions and governments with strong credit standing. As such, credit risk for the Company's treasury activities is not significant.

#### *Credit-related commitments*

The risks involved in credit-related commitments and contingencies are essentially the same as 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.

#### *Master netting arrangements*

The Company enters into master netting arrangements with counterparties whenever possible. Netting agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis.

#### *Concentration of credit risk*

The Company pursues a strategy of mitigating any concentration in credit risk by diversifying the asset portfolio. The total asset portfolio consists of a balanced mix of collateralized products (mortgages and margin finance), as well as credit cards and unsecured credit facility but is concentrated in Hong Kong.

## 19 Financial risk management (continued)

### (b) Market risk management

Market risk arises on all market risk sensitive financial instruments, including securities, foreign exchange contracts, etc. The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to manage the Company's exposure to the volatility inherent in financial instruments.

The Treasury Department manages interest rate risks within the limits approved by the Market Risk Management, and these risks are monitored and reported by an independent Operations unit. It also reviews and sets limits package as well as permitted product list, ensuring adherence to risk management objectives.

Derivative instruments are used to manage the Company's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Company are foreign exchange rate related contracts, which are primarily over-the-counter derivatives.

The Company sets various positions and sensitivity limit structures. Additionally, the Company applies quantitative techniques and simulation models to identify and assess the potential net interest income and market value effects of these interest rate positions in different interest rate scenarios. The primary objective of such interest rate risk management is to limit the potential adverse effect of interest rate movements on net interest income. The Market Risk Manager monitors interest rate risks against set limits on a daily basis. All exceptions are reviewed and approved by the appropriate level of Market Risk Management.

### (i) 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 match closely its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Company is exposed to currency risks primarily arising from financial instruments that are denominated in the United States dollar ("USD"). In respect of financial instruments denominated in other currencies, the Company ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

**19 Financial risk management (continued)**

**(b) Market risk management (continued)**

**(ii) Interest rate risk**

The Company's interest rate positions arise from treasury and consumer banking activities. Interest rate risk arises in both trading portfolios and non-trading portfolios. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. It also related to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Interest rate risk is managed by the Treasury Department within limits approved by the Market Risk Management, including interest rate gap limits.

**(c) 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.

## 19 Financial risk management (continued)

### (c) 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.



## 19 Financial risk management (continued)

### (c) 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 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 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.

## 19 Financial risk management (continued)

### (c) Liquidity risk management (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 December 31, 2016, 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\$45 billion as of December 31, 2016.

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.

## 19 Financial risk management (continued)

### (c) Liquidity risk management (continued)

#### Analysis of assets and liabilities by remaining maturity

The following maturity profile is based on the remaining period at the statement of financial position date to the contractual maturity date.

| 2016   | Total              | Repayable on demand | 1 month or less   | Over 1 month to 3 months | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years      | Undated or overdue |
|--|--------------------|---------------------|-------------------|--------------------------|-------------------------|------------------------|-------------------|--------------------|
| <b>Assets</b>  |                    |                     |                   |                          |                         |                        |                   |                    |
| Cash and balances with banks, central banks and other financial institutions | 9,689,133          | 6,526,116           | 3,163,017         | -                        | -                       | -                      | -                 | -                  |
| Placements with banks and other financial institutions                       | 9,324,682          | -                   | -                 | 2,314,894                | 7,009,788               | -                      | -                 | -                  |
| Loans and advances   | 94,683,352         | 8,961,440           | 355,106           | 1,221,599                | 7,523,192               | 46,938,821             | 29,532,904        | 150,290            |
| Trade bills  | 6,267              | 228                 | 4,103             | 1,697                    | -                       | -                      | -                 | 239                |
| Financial assets at fair value through profit or loss                        | 30,434,270         | -                   | 11,420,829        | 17,759,899               | 1,169,505               | -                      | -                 | 84,037             |
| Available-for-sale financial assets  | 15,185,197         | -                   | 2,594,309         | 2,927,612                | 9,233,317               | 429,959                | -                 | -                  |
| Non-interest bearing assets  | 3,777,315          | -                   | -                 | -                        | -                       | -                      | -                 | 3,777,315          |
|  | <b>163,100,216</b> | <b>15,487,784</b>   | <b>17,537,364</b> | <b>24,225,701</b>        | <b>24,935,802</b>       | <b>47,368,780</b>      | <b>29,532,904</b> | <b>4,011,881</b>   |
| <b>Liabilities</b>   |                    |                     |                   |                          |                         |                        |                   |                    |
| Deposits and balances from banks and other financial institutions            | 1,171,708          | 161,668             | 746,540           | 113,500                  | 150,000                 | -                      | -                 | -                  |
| Deposits from customers  | 137,692,990        | 111,968,529         | 12,108,397        | 12,165,044               | 1,446,953               | 4,067                  | -                 | -                  |
| Trading financial liabilities  | 192,251            | -                   | -                 | -                        | -                       | -                      | -                 | 192,251            |
| Non-interest bearing liabilities   | 3,761,972          | -                   | -                 | -                        | -                       | -                      | -                 | 3,761,972          |
|  | <b>142,818,921</b> | <b>112,130,197</b>  | <b>12,854,937</b> | <b>12,278,544</b>        | <b>1,596,953</b>        | <b>4,067</b>           | <b>-</b>          | <b>3,954,223</b>   |
| <b>Commitments</b>   |                    |                     |                   |                          |                         |                        |                   |                    |
| Trade-related contingencies  | 10,138             | 48                  | 3,431             | 6,113                    | 546                     | -                      | -                 | -                  |
| Other commitments  | 70,326,188         | 69,919,041          | 359,169           | 43,178                   | 4,800                   | -                      | -                 | -                  |
| Forward deposits placed  | 5,922              | -                   | 5,922             | -                        | -                       | -                      | -                 | -                  |
|  | <b>70,342,248</b>  | <b>69,919,089</b>   | <b>368,522</b>    | <b>49,291</b>            | <b>5,346</b>            | <b>-</b>               | <b>-</b>          | <b>-</b>           |
| <b>Of which:</b>   |                    |                     |                   |                          |                         |                        |                   |                    |
| Debt securities  |                    |                     |                   |                          |                         |                        |                   |                    |
| - included in financial assets at fair value through profit or loss          | 30,350,233         | -                   | 11,420,829        | 17,759,899               | 1,169,505               | -                      | -                 | -                  |
| - included in available-for-sale financial assets                            | 15,185,197         | -                   | 2,594,309         | 2,927,612                | 9,233,317               | 429,959                | -                 | -                  |
|  | <b>45,535,430</b>  | <b>-</b>            | <b>14,015,138</b> | <b>20,687,511</b>        | <b>10,402,822</b>       | <b>429,959</b>         | <b>-</b>          | <b>-</b>           |

## 19 Financial risk management (continued)

### (c) Liquidity risk management (continued)

| 2015   | Total              | Repayable on<br>demand 1 month or less | Over 1 month<br>to 3 months | Over 3 months<br>to 1 year | Over 1 year to<br>5 years | Over 5 years      | Undated or<br>overdue |
|--|--------------------|--|-----------------------------|----------------------------|---------------------------|-------------------|-----------------------|
| <b>Assets</b>  |                    |  |                             |                            |                           |                   |                       |
| Cash and balances with<br>banks, central banks<br>and other financial<br>institutions        | 9,789,245          | 4,503,169                              | 5,286,076                   | -                          | -                         | -                 | -                     |
| Placements with banks<br>and other financial<br>institutions                                 | 7,800,520          | -                                      | -                           | 2,869,286                  | 4,931,234                 | -                 | -                     |
| Loans and advances   | 94,900,259         | 8,719,148                              | 363,145                     | 1,373,796                  | 7,836,034                 | 45,024,270        | 31,412,419            |
| Trade bills  | 9,791              | 197                                    | 1,854                       | 7,477                      | 263                       | -                 | -                     |
| Financial assets at fair<br>value through profit<br>or loss                                  | 19,417,207         | -                                      | 5,163,791                   | 13,420,510                 | 668,927                   | 58,166            | 105,813               |
| Available-for-sale<br>financial assets   | 12,830,673         | -                                      | 6,999,934                   | 3,999,813                  | -                         | 1,830,926         | -                     |
| Non-interest bearing<br>assets   | 3,033,160          | -                                      | -                           | -                          | -                         | -                 | 3,033,160             |
|  | <b>147,780,855</b> | <b>13,222,514</b>                      | <b>17,814,800</b>           | <b>21,670,882</b>          | <b>13,436,458</b>         | <b>46,913,362</b> | <b>31,412,419</b>     |
|  |                    |  |                             |                            |                           |                   | <b>3,310,420</b>      |
| <b>Liabilities</b>   |                    |  |                             |                            |                           |                   |                       |
| Deposits and balances from<br>banks and other<br>financial institutions                      | 1,394,833          | 56,517                                 | 393,816                     | 113,500                    | 510,750                   | 320,250           | -                     |
| Deposits from<br>customers   | 123,477,350        | 95,171,208                             | 15,140,951                  | 11,722,422                 | 1,440,284                 | 2,485             | -                     |
| Trading financial<br>liabilities   | 119,927            | -                                      | -                           | -                          | -                         | -                 | 119,927               |
| Non-interest bearing<br>liabilities  | 3,031,193          | -                                      | -                           | -                          | -                         | -                 | 3,031,193             |
|  | <b>128,023,303</b> | <b>95,227,725</b>                      | <b>15,534,767</b>           | <b>11,835,922</b>          | <b>1,951,034</b>          | <b>322,735</b>    | <b>-</b>              |
|  |                    |  |                             |                            |                           |                   | <b>3,151,120</b>      |
| <b>Commitments</b>   |                    |  |                             |                            |                           |                   |                       |
| Trade-related<br>contingencies   | 6,950              | 340                                    | 1,791                       | 4,729                      | 90                        | -                 | -                     |
| Other commitments  | 72,503,472         | 72,288,342                             | 154,554                     | 54,780                     | 5,796                     | -                 | -                     |
| Forward deposits<br>placed   | -                  | -                                      | -                           | -                          | -                         | -                 | -                     |
|  | <b>72,510,422</b>  | <b>72,288,682</b>                      | <b>156,345</b>              | <b>59,509</b>              | <b>5,886</b>              | <b>-</b>          | <b>-</b>              |
| <b>Of which:</b>   |                    |  |                             |                            |                           |                   |                       |
| Debt securities<br>- included in financial assets<br>at fair value through<br>profit or loss | 19,311,394         | -                                      | 5,163,791                   | 13,420,510                 | 668,927                   | 58,166            | -                     |
| - included in available-<br>for-sale financial assets  | 12,830,673         | -                                      | 6,999,934                   | 3,999,813                  | -                         | 1,830,926         | -                     |
|  | <b>32,142,067</b>  | <b>-</b>                               | <b>12,163,725</b>           | <b>17,420,323</b>          | <b>668,927</b>            | <b>1,889,092</b>  | <b>-</b>              |

As the trading portfolios may be sold before maturity or deposits from customers may mature without being withdrawn, the contractual maturity dates do not represent expected dates of future cash flows.

## 19 Financial risk management (continued)

### (d) *Operational risk management*

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. It includes reputation and franchise risk associated with business practices or market conduct that the Company may undertake. Operational Risk does not encompass strategic risk or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity, or insurance risk. Operational risk is inherent in the Company's business activities and is managed through an overall framework with checks and balances that include recognized ownership of the risk by the businesses and independent risk management oversight. The Company mitigates its operational risk by setting up its key controls and assessments according to Citigroup's and the Regulators' standards. They are also evaluated, monitored, and managed by its sound governance structure.

The Company's Self-Assessment and Operational Risk Framework includes the Operational Risk Management Policy and the Manager's Control Assessment Standards within the policy which defines the Company's approach to operational risk management. The objective of the policy is to establish a consistent approach to assessing relevant risks and the overall control environment across the Company, to facilitate adherence to regulatory requirements and other corporate initiatives, including Operational Risk Management and alignment of capital assessments with risk management objectives.

While it is the business culture for every employee to have operational risk responsibility and awareness in their daily operations, those operational risk focuses are coordinated through independent operational risk management and control functions (including Legal and Compliance). Significant operational events and risks are monitored by the Business Risk, Compliance & Control Committee and the Board, and are subject to internal audit.

### (e) *Capital management*

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

## **19 Financial risk management (continued)**

### **(e) Capital management (continued)**

The process of allocating capital to specific operations and activities is undertaken by senior management.

Consistent with industry practice, the Company monitors its capital structure on the basis of the capital adequacy ratio and there have been no material changes in the Company's policy on the management of capital during the year.

The Company has complied with all externally imposed capital requirements, with capital positions well above the minimum capital requirement set by the HKMA, throughout the years ended December 31, 2016 and 2015. Further information on the Company's capital positions can be found in part (a) of the unaudited supplementary information.

## **20 Fair values of financial instruments**

The carrying amounts of the Company's financial instruments (loans and advances to customers and deposit from customers) are carried at cost or amortized cost and are reasonable approximation of their fair values as at 31 December 2016 and 2015.

## **21 Material related party transactions**

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Company entered into the following material related party transactions. The Company has policies on lending to related parties which define related parties, credit and reporting processes, requirements and restrictions on such lending.

**21 Material related party transactions (continued)**

**(a) Transactions with group companies**

During the year, the Company entered into transactions with related parties in the ordinary course of its banking business including lending, acceptance and placement of inter-bank deposits, correspondent banking transactions and off-balance sheet transactions. The transactions were priced at the relevant market rates at the time of each transaction.

The amounts of related party transactions during the year and outstanding balances at the end of the year are set out below:

|                                | <i>Ultimate holding company</i> |             | <i>Immediate holding company</i> |             | <i>Fellow subsidiaries</i> |             |
|--------------------------------|---------------------------------|-------------|----------------------------------|-------------|----------------------------|-------------|
|                                | <i>2016</i>                     | <i>2015</i> | <i>2016</i>                      | <i>2015</i> | <i>2016</i>                | <i>2015</i> |
| Interest income                | -                               | -           | 442,145                          | 357,056     | 1,561                      | 1,953       |
| Interest expense               | -                               | -           | (16,089)                         | (24,469)    | -                          | -           |
| Fee and commission income      | -                               | -           | 673,689                          | 505,054     | 147,410                    | 127,015     |
| Net trading income             | -                               | -           | -                                | (729)       | -                          | -           |
| Operating expenses             | -                               | -           | (1,018,608)                      | (851,317)   | (302,065)                  | (369,207)   |
| For the year ended December 31 | -                               | -           | 81,137                           | (14,405)    | (153,094)                  | (240,239)   |

**Material related party transactions (continued)**

*Transactions with group companies (continued)*

|  | <i>Ultimate holding company</i> |        | <i>Immediate holding company</i> |            | <i>Fellow subsidiaries</i> |         |
|--|---------------------------------|--------|----------------------------------|------------|----------------------------|---------|
|  | 2016                            | 2015   | 2016                             | 2015       | 2016                       | 2015    |
| <i>Placement of deposits</i>   |                                 |        |                                  |            |                            |         |
| At January 1   | -                               | -      | 39,472,471                       | 37,120,373 | 280,374                    | 305,540 |
| At December 31   | -                               | -      | 40,630,237                       | 39,472,471 | 346,976                    | 280,374 |
| Average balance  | -                               | -      | 40,051,354                       | 38,296,422 | 313,675                    | 292,957 |
| <i>Acceptance of deposits</i>  |                                 |        |                                  |            |                            |         |
| At January 1   | -                               | -      | 1,394,833                        | 5,163,363  | 266,775                    | 260,121 |
| At December 31   | -                               | -      | 1,171,708                        | 1,394,833  | 278,917                    | 266,775 |
| Average balance  | -                               | -      | 1,283,271                        | 3,279,098  | 272,846                    | 263,448 |
| <i>Cash and balances with banks<br/>and other financial institutions</i> |                                 |        |                                  |            |                            |         |
| At January 1   | -                               | -      | 2,049,592                        | 1,516,518  | 55,979                     | 59,143  |
| At December 31   | -                               | -      | 3,041,275                        | 2,049,592  | 89,511                     | 55,979  |
| Average balance  | -                               | -      | 2,545,434                        | 1,783,055  | 72,745                     | 57,561  |
| <i>Other assets</i>  |                                 |        |                                  |            |                            |         |
| At January 1   | -                               | -      | 794,271                          | 810,089    | 50,078                     | 51,742  |
| At December 31   | -                               | -      | 1,078,742                        | 794,271    | 53,556                     | 50,078  |
| Average balance  | -                               | -      | 936,507                          | 802,180    | 51,817                     | 50,910  |
| <i>Other liabilities</i>   |                                 |        |                                  |            |                            |         |
| At January 1   | 19,415                          | 29,321 | 110,896                          | 407,726    | 22,311                     | 15,085  |
| At December 31   | 11,273                          | 19,415 | 184,145                          | 110,896    | 31,782                     | 22,311  |
| Average balance  | 15,344                          | 24,368 | 147,521                          | 259,311    | 27,047                     | 18,698  |

No impairment allowance was made in respect of the above loans to and placements with related parties.



## 21 Material related party transactions (continued)

### (b) Key management personnel emoluments

Emoluments for key management personnel, including amounts paid to the Company's directors, are as follows:

|                              | 2016   | 2015   |
|------------------------------|--------|--------|
| Short-term employee benefits | 78,053 | 72,291 |
| Post-employment benefits     | 3,173  | 3,092  |
| Share-based payments         | 6,840  | 4,290  |
|                              | 88,066 | 79,673 |

Amounts disclosed include emoluments totaling HK\$46,201,135 (2015: HK\$42,076,957) to certain key management personnel were paid by group companies of the Company. The Company did not reimburse the group companies for the service provided.

In addition to the amounts disclosed above, emoluments totalling HK\$732,950 (2015: HK\$379,180) to certain key management personnel who provided services to group companies of the Company were paid by the Company. The Company did not receive reimbursement from group companies.

### (c) Credit facilities to key management personnel

During the year, the Company provided credit facilities to its key management personnel and their close family members and companies controlled or significantly influenced by them. The credit facilities were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing or, where applicable, with other employees.

|                 | 2016   | 2015   |
|-----------------|--------|--------|
| At January 1    | 37,206 | 68,831 |
| At December 31  | 24,339 | 37,206 |
| Maximum balance | 39,733 | 78,409 |

### (d) Loans to directors

Loans to directors of the Company disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

|  | 2016   | 2015   |
|--|--------|--------|
| Aggregate amount of relevant loans made by the Company outstanding at December 31          | 11,726 | 11,888 |
| Maximum aggregate amount of relevant loans made by the Company outstanding during the year | 14,031 | 40,647 |

## UNAUDITED SUPPLEMENTARY INFORMATION

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

**(a) Capital adequacy ratio**

The capital adequacy ratios were calculated in accordance with the Capital Rules. 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 Dec 31,</i><br><i>2016</i> | <i>At Dec 31,</i><br><i>2015</i> |
|---|----------------------------------|----------------------------------|
| The Company's regulatory capital position was as follows: |                                  |                                  |
| Common Equity Tier 1 (CET1) capital ratio                 | 29.27%                           | 28.51%                           |
| Tier 1 capital ratio                                      | 29.27%                           | 28.51%                           |
| Total capital ratio                                       | 30.35%                           | 29.59%                           |

***Countercyclical Capital Buffer Ratio***

|                                      | <i>At Dec 31,</i><br><i>2016</i> | <i>At Dec 31,</i><br><i>2015</i> |
|--------------------------------------|----------------------------------|----------------------------------|
| Countercyclical Capital Buffer Ratio | 0.61%                            | 0.00%                            |

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

There is no information disclosed relating to the Countercyclical capital buffer (“CCyB”) ratio pursuant to section 45B of the Banking (Disclosure) Rules 2015 because the applicable JCCyB ratio 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 ratios for calculating the Bank’s buffer level are 0.625% for 2016 and 0% for 2015.

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 statement of financial position.

**(b) Leverage ratio**

|                | <i>At Dec 31,</i><br><i>2016</i> | <i>At Dec 31,</i><br><i>2015</i> |
|----------------|----------------------------------|----------------------------------|
| Leverage Ratio | 11.18%                           | 11.72%                           |

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 the Banking (Disclosure) Rules can be found in our website [www.citibank.com.hk](http://www.citibank.com.hk).

**(c) Liquidity ratio**

|  | <i>2016</i> | <i>2015</i> |
|--|-------------|-------------|
| Average liquidity maintenance ratio for the year | 37.51%      | 33.53%      |

The liquidity maintenance ratio is calculated in accordance with the Banking (Liquidity) Rules, and the average ratio are computed as the simple average of each calendar month's average ratio.

**(d) Segmental information**

**(i) By class of business**

The Company mainly provides financial services related to retail banking business.

**(ii) By geographical area**

No single country or geographic segment other than Hong Kong contributes 10% or more of the Group's assets, liabilities, profit or loss before taxation, total operating income or contingent liabilities and commitments.

**(iii) 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

| At Dec 31, 2016         |              |                            |  |  |              |
|-------------------------|--------------|----------------------------|--|--|--------------|
| Non-bank private sector |              |                            |  |  |              |
|                         | <i>Banks</i> | <i>Official<br/>Sector</i> | <i>Non-bank<br/>financial<br/>institutions</i> | <i>Non-<br/>financial<br/>private<br/>sector</i> | <i>Total</i> |
| 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   |
| At Dec 31, 2015         |              |                            |  |  |              |
| Non-bank private sector |              |                            |  |  |              |
|                         | <i>Banks</i> | <i>Official<br/>Sector</i> | <i>Non-bank<br/>financial<br/>institutions</i> | <i>Non-<br/>financial<br/>private<br/>sector</i> | <i>Total</i> |
| Developed countries     | 43,351,295   | 15,292,382                 | 2,383,052                                      | 661,857  | 61,688,586   |
| of which United States  | 42,391,723   | 8,542,764                  | 1,182,777                                      | 107,634  | 52,224,898   |

(e) **Further analysis on loans and advances to customers**

(i) *Loans and advances to customers analyzed by industry sector*

|   | 2016          |  | 2015          |  |
|---|---------------|--|---------------|--|
|   | <i>Amount</i> | <i>% of loans and<br/>advances<br/>covered by<br/>collateral or<br/>other security</i> | <i>Amount</i> | <i>% of loans and<br/>advances<br/>covered by<br/>collateral or<br/>other security</i> |
| <b>Loans and advances to customers<br/>for use in Hong Kong</b>         |               |  |               |  |
| <i>Industrial, commercial and<br/>financial</i>                         |               |  |               |  |
| Property investment   | 4,299,356     | 100%   | 4,842,174     | 100%   |
| Wholesale and retail trade  | 372,349       | 35%  | 427,386       | 37%  |
| Manufacturing   | 92,770        | 34%  | 107,821       | 34%  |
| Others  | 149,860       | 20%  | 155,204       | 26%  |
| <i>Individuals</i>  |               |  |               |  |
| Loans for the purchase of<br>other residential properties               | 35,291,200    | 100%   | 36,405,058    | 100%   |
| Credit card advances  | 13,560,224    | -  | 13,601,506    | -  |
| Others  | 13,285,781    | 60%  | 13,724,305    | 59%  |
|   | 67,051,540    |  | 69,263,454    |  |
| Netting adjustment on account of<br>foreign currency margin<br>products | (715,094)     |  | (965,965)     |  |
| Total loans and advances to<br>customers for use in Hong<br>Kong        | 66,336,446    |  | 68,297,489    |  |
| Loans and advances to customers<br>for use outside Hong Kong            | 12,765        | -  | 17,631        | -  |
| Trade finance   | 134,165       | 58%  | 185,963       | 56%  |
| Total   | 66,483,376    |  | 68,501,083    |  |

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

(e) **Further analysis on loans and advances to customers (continued)**

(i) ***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:

|  | 2016    | 2015    |
|--|---------|---------|
| <u>Overdue loans and advances to customers</u>         |         |         |
| <i>Individuals</i>                                     |         |         |
| Loans for the purchase of other residential properties | 3,490   | 3,455   |
| Credit card advances                                   | 33,269  | 34,303  |
| Others   | 4,402   | 5,238   |
| <br><u>Impaired loans and advances to customers</u>    |         |         |
| <i>Individuals</i>                                     |         |         |
| Loans for the purchase of other residential properties | 5,089   | 5,123   |
| Credit card advances                                   | 33,269  | 34,303  |
| Others   | 27,996  | 30,763  |
| <br><u>Collective impairment allowances</u>            |         |         |
| <i>Individuals</i>                                     |         |         |
| Loans for the purchase of other residential properties | 974     | 170     |
| Credit card advances                                   | 221,657 | 176,384 |
| Others   | 53,328  | 67,005  |
| <br><u>New impairment allowances</u>                   |         |         |
| <i>Individuals</i>                                     |         |         |
| Loans for the purchase of other residential properties | 804     | 113     |
| Credit card advances                                   | 302,646 | 256,451 |
| Others   | 73,635  | 116,825 |
| <br><u>Advances written off during the year</u>        |         |         |
| <i>Individuals</i>                                     |         |         |
| Credit card advances                                   | 257,373 | 233,385 |
| Others   | 87,312  | 99,566  |

(ii) ***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.

**(f) Overdue and rescheduled assets**

**(i) Overdue loans and advances to customers**

|  | 2016          |   | 2015          |   |
|--|---------------|---|---------------|---|
|  | <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   | 40,715        | 0.06%                                       | 41,312        | 0.06%                                       |
| - 1 year or less but over 6 months   | 446           | 0.00%                                       | 5,583         | 0.01%                                       |
| - over 1 year  | 4,527         | 0.01%                                       | 491           | 0.00%                                       |
|  | <u>45,688</u> | 0.07%                                       | <u>47,386</u> | 0.07%                                       |
| Current market value of collateral held against the covered portion of overdue loans and advances to customers | <u>23,176</u> |   | <u>28,449</u> |   |
| Covered portion of overdue loans and advances to customers   | 8,017         |   | 7,817         |   |
| Uncovered portion of overdue loans and advances to customers   | <u>37,671</u> |   | <u>39,569</u> |   |
|  | <u>45,688</u> |   | <u>47,386</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.

(f) **Overdue and rescheduled assets (continued)**

(ii) *Rescheduled loans and advances to customers*

|   | 2016          |   | 2015          |   |
|---|---------------|---|---------------|---|
|   | <i>Amount</i> | <i>% of loans and advances to customers</i> | <i>Amount</i> | <i>% of loans and advances to customers</i> |
| Rescheduled loans and advances to customers | <u>25,194</u> | 0.04%                                       | <u>27,193</u> | 0.04%                                       |

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of a 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 (f)(i).

(iii) *Impaired loans and advances to customers*

|   | 2016          |   | 2015          |   |
|---|---------------|---|---------------|---|
|   | <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     | 45,688        | 0.07%                                       | 47,386        | 0.07%                                       |
| Rescheduled loans and advances to customers | <u>25,194</u> | 0.04%                                       | <u>27,193</u> | 0.04%                                       |
| Impaired loans and advances to customers    | <u>70,882</u> | 0.11%                                       | <u>74,579</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 31 December 2016 and 31 December 2015, nor were there any rescheduled advances to banks and other financial institutions.



**(g) Repossessed assets**

|                   | 2016 | 2015 |
|-------------------|------|------|
| Reposessed 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.

**(h) 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.

|   | 2016                                      |  |                            |
|---|---|--|----------------------------|
|   | <i>On-balance<br/>sheet<br/>exposures</i> | <i>Off-balance<br/>sheet<br/>exposures</i> | <i>Total<br/>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%                                     |  |                            |

**(h) Mainland Activities (continued)**

|   | <i>On-balance<br/>sheet<br/>exposures</i> | <i>2015<br/>Off-balance<br/>sheet<br/>exposures</i> | <i>Total<br/>exposures</i> |
|---|---|---|----------------------------|
| Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)   | 58,325                                    | -   | 58,325                     |
| PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures                 | 1,130,660                                 | 953,491   | 2,084,151                  |
| PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China | 490                                       | 1,996   | 2,486                      |
| Other counterparties where the exposures are considered by the reporting institution to be non-bank China exposure                                  | 28,321                                    | 88  | 28,409                     |
| <b>Total</b>  | <b>1,217,796</b>                          | <b>955,575</b>                                      | <b>2,173,371</b>           |
| Total assets after provision  | 148,744,989                               |   |                            |
| On-balance sheet exposures as percentage of total assets  | 0.82%                                     |   |                            |

(i) **Additional disclosures on credit risk management**

(i) ***Capital requirements for credit risk***

The capital requirements on each class of exposures calculated under the standardized (credit risk) approach at the statement of financial position date can be analyzed as follows:

|  | 2016             | 2015             |
|--|------------------|------------------|
| Classes of exposures:                                      |                  |                  |
| Public sector entity                                       | 12,505           | 11,965           |
| Bank   | 1,596,562        | 1,491,656        |
| Corporate  | 9,336            | 10,130           |
| Cash items   | 73               | 239              |
| Regulatory retail  | 1,264,059        | 1,266,969        |
| Residential mortgage loans                                 | 1,308,583        | 1,388,176        |
| Other exposures which are not past due                     | 275,678          | 230,020          |
| Past due   | 11,128           | 12,693           |
|  | <u>4,477,924</u> | <u>4,411,848</u> |
| Total capital requirements for on-balance sheet exposures  | <u>4,477,924</u> | <u>4,411,848</u> |
| Trade-related contingencies                                | 162              | 111              |
| Forward forward deposits placed                            | 95               | -                |
| Other commitments  | 18,870           | 18,941           |
| Exchange rate contracts                                    | 7,807            | 8,399            |
|  | <u>26,934</u>    | <u>27,451</u>    |
| Total capital requirements for off-balance sheet exposures | <u>26,934</u>    | <u>27,451</u>    |

The capital requirement is made by multiplying the Company's risk-weighted amount derived from the relevant calculation approach by 8%. It does not reflect the Company's actual regulatory capital.

(ii) ***Capital charge for operational risk***

The capital charge for operational risk calculated in accordance with the standardized (operational risk) approach at the statement of financial position date is:

|                                     | 2016           | 2015           |
|-------------------------------------|----------------|----------------|
| Capital charge for operational risk | 752,518        | 740,037        |
|                                     | <u>752,518</u> | <u>740,037</u> |

(i) **Additional disclosures on credit risk management (continued)**

(iii) **Credit risk exposures**

Credit ratings from Moody's Investors Service and Standard & Poor's Ratings Services are used for all classes of credit exposures mentioned below. The Company follows the process prescribed in Part 4 of the Banking (Capital) Rules to map the ratings to the exposures booked in the Company's banking book.

An analysis of the credit risk of the Company by class of exposures at the statement of financial position date is as follows:

| 2016   | Total exposures | After credit risk mitigation |            | Risk-weighted amounts |            | Total risk-weighted amounts | Total exposure covered by recognized collateral | Total exposure covered by recognized guarantees or credit derivative contracts |
|--|-----------------|------------------------------|------------|-----------------------|------------|-----------------------------|---|--|
|  |                 | Rated                        | Unrated    | Rated                 | Unrated    |                             |   |  |
| <i>On-balance sheet</i>  |                 |                              |            |                       |            |                             |   |  |
| Sovereign  | 47,113,312      | 47,164,068                   | -          | -                     | -          | -                           | -   | -  |
| Public sector entity   | -               | 781,535                      | -          | 156,307               | -          | 156,307                     | -   | -  |
| <i>Multilateral</i>  |                 |                              |            |                       |            |                             |   |  |
| development bank   | 430,345         | 430,345                      | -          | -                     | -          | -                           | -   | -  |
| Bank   | 45,432,207      | 45,085,103                   | 347,104    | 19,881,956            | 75,067     | 19,957,023                  | -   | -  |
| Corporate  | 150,143         | -                            | 116,699    | -                     | 116,699    | 116,699                     | 33,444  | -  |
| Cash items   | 440,484         | -                            | 440,484    | -                     | 910        | 910                         | -   | -  |
| Regulatory retail  | 24,983,255      | -                            | 21,067,644 | -                     | 15,800,734 | 15,800,734                  | 3,835,761                                       | 79,850   |
| <i>Residential</i>   |                 |                              |            |                       |            |                             |   |  |
| mortgage loans   | 39,181,357      | -                            | 38,479,672 | -                     | 16,357,286 | 16,357,286                  | -   | 701,685  |
| <i>Other exposures</i>   |                 |                              |            |                       |            |                             |   |  |
| which are not  |                 |                              |            |                       |            |                             |   |  |
| past due   | 5,536,343       | -                            | 3,445,980  | -                     | 3,445,980  | 3,445,980                   | 2,090,363                                       | -  |
| Past due   | 95,946          | -                            | 95,946     | -                     | 139,101    | 139,101                     | -   | -  |
| <i>Off-balance sheet</i>   |                 |                              |            |                       |            |                             |   |  |
| <i>Trade-related</i>   |                 |                              |            |                       |            |                             |   |  |
| contingencies  | 10,138          | -                            | 10,138     | -                     | 2,028      | 2,028                       | -   | -  |
| <i>Forward forward</i>   |                 |                              |            |                       |            |                             |   |  |
| deposits placed  | 5,922           | -                            | 5,922      | -                     | 1,184      | 1,184                       | -   | -  |
| <i>Commitments that are unconditionally cancellable without prior notice</i> |                 |                              |            |                       |            |                             |   |  |
|  | 68,809,688      | -                            | 68,809,688 | -                     | -          | -                           | -   | -  |
| Other commitments  | 1,516,500       | -                            | 1,516,500  | -                     | 235,877    | 235,877                     | -   | -  |
| <i>Exchange rate</i>   |                 |                              |            |                       |            |                             |   |  |
| contracts  | 281,920         | 220,408                      | 20,941     | 88,226                | 9,363      | 97,589                      | 40,571  | -  |

(i) Additional disclosures on credit risk management (continued)

(iii) Credit risk exposures (continued)

| 2015   | Total exposures | After credit risk mitigation |            | Risk-weighted amounts |            | Total risk-weighted amounts | Total exposure covered by recognized collateral | Total exposure covered by recognized guarantees or credit derivative contracts |
|--|-----------------|------------------------------|------------|-----------------------|------------|-----------------------------|---|--|
|  |                 | Rated                        | Unrated    | Rated                 | Unrated    |                             |   |  |
| <i>On-balance sheet</i>  |                 |                              |            |                       |            |                             |   |  |
| Sovereign  | 32,607,118      | 32,672,929                   | -          | -                     | -          | -                           | -   | -  |
| Public sector entity   | -               | 747,822                      | -          | 149,564               | -          | 149,564                     | -   | -  |
| <i>Multilateral</i>  |                 |                              |            |                       |            |                             |   |  |
| development bank   | 435,591         | 435,591                      | -          | -                     | -          | -                           | -   | -  |
| Bank   | 43,095,975      | 42,815,304                   | 280,671    | 18,588,368            | 57,338     | 18,645,706                  | -   | -  |
| Corporate  | 179,779         | -                            | 126,619    | -                     | 126,619    | 126,619                     | 53,160  | -  |
| Cash items   | 523,742         | -                            | 523,742    | -                     | 2,992      | 2,992                       | -   | -  |
| Regulatory retail  | 25,162,534      | -                            | 21,116,147 | -                     | 15,837,110 | 15,837,110                  | 3,940,188                                       | 106,199  |
| <i>Residential</i>   |                 |                              |            |                       |            |                             |   |  |
| mortgage loans   | 40,857,043      | -                            | 40,215,420 | -                     | 17,352,202 | 17,352,202                  | -   | 641,623  |
| <i>Other exposures which are not past due</i>                                |                 |                              |            |                       |            |                             |   |  |
| Past due   | 5,386,549       | -                            | 2,875,253  | -                     | 2,875,253  | 2,875,253                   | 2,511,296                                       | -  |
| Past due   | 108,971         | -                            | 108,971    | -                     | 158,657    | 158,657                     | -   | -  |
| <i>Off-balance sheet</i>   |                 |                              |            |                       |            |                             |   |  |
| <i>Trade-related contingencies</i>   |                 |                              |            |                       |            |                             |   |  |
|  | 6,950           | -                            | 6,950      | -                     | 1,390      | 1,390                       | -   | -  |
| <i>Forward forward deposits placed</i>                                       |                 |                              |            |                       |            |                             |   |  |
|  | -               | -                            | -          | -                     | -          | -                           | -   | -  |
| <i>Commitments that are unconditionally cancellable without prior notice</i> |                 |                              |            |                       |            |                             |   |  |
|  | 71,115,651      | -                            | 71,115,651 | -                     | -          | -                           | -   | -  |
| Other commitments  | 1,387,821       | -                            | 1,387,821  | -                     | 236,758    | 236,758                     | -   | -  |
| <i>Exchange rate contracts</i>   |                 |                              |            |                       |            |                             |   |  |
|  | 323,431         | 220,964                      | 55,083     | 104,376               | 617        | 104,993                     | 47,384  | -  |

The amount of credit exposures that are risk-weighted at 1250% is nil (2015: nil).

(i) **Additional disclosures on credit risk management (continued)**

(iv) *Counterparty credit risk-related exposures*

The Company engages in over-the-counter (OTC) derivative transactions that may result in counterparty credit risk. The OTC derivative transactions include (1) embedded derivatives of hybrid (combined) deposits to customers and (2) stand-alone derivatives.

*Embedded derivatives of hybrid (combined) deposits*

Positioned as a single product, a hybrid (combined) deposit to customers generally consists of two components: an embedded derivative and a host cash deposit. The host cash deposit serves as a collateral over the terms of the transaction that fully mitigates the counterparty credit risks associated with the embedded derivative.

*Stand-alone derivatives transactions*

The Company participates in stand-alone derivative transactions predominately for managing its own exposures as part of its asset and liability management process. The derivative activities of this type are with group entities.

No internal capital and credit limit for counterparty are considered necessary for the fully mitigated transactions and transactions with group entities. Additional collaterals and provisions are also considered unnecessary.

An analysis of major classes of exposures by counterparty type is as follows:

|                           | <i>Banks and<br/>other financial<br/>institutions</i> | <i>Others</i> | <i>Total</i> |
|---------------------------|---|---------------|--------------|
| <i>2016</i>               |   |               |              |
| Notional amounts          | 16,891,955  | 2,896,391     | 19,788,346   |
| Credit equivalent amounts | 232,258   | 49,662        | 281,920      |
| Risk-weighted amounts     | 90,596  | 6,993         | 97,589       |
| <i>2015</i>               |   |               |              |
| Notional amounts          | 18,598,814  | 3,163,141     | 21,761,955   |
| Credit equivalent amounts | 273,309   | 51,122        | 324,431      |
| Risk-weighted amounts     | 104,486   | 507           | 104,993      |

(i) **Additional disclosures on credit risk management (continued)**

(iv) *Counterparty credit risk-related exposures (continued)*

*Stand-alone derivatives transactions (continued)*

An analysis of counterparty credit risk exposures is as follows:

|   | 2016    | 2015    |
|---|---------|---------|
| Gross total positive fair value                       | 84,037  | 105,813 |
| Credit equivalent amounts                             | 281,920 | 324,431 |
| <b>Recognized collateral held:</b>                    |         |         |
| - Cash on deposits with the Company                   | 40,571  | 47,384  |
| Credit equivalents, net of recognized collateral held | 241,349 | 276,047 |
| Risk-weighted amounts                                 | 97,589  | 104,993 |

There were no counterparty credit risk exposures to sovereigns, public sector entities and corporates as at statement of financial position date.

(i) **Additional disclosures on credit risk management (continued)**

(v) ***Credit risk mitigation***

Under the Banking (Capital) Rules, recognized netting is defined as any netting done pursuant to a valid bilateral netting arrangement. Consistent with the Banking (Capital) Rules, the Company only includes valid bilateral netting arrangements in the calculation of credit risk mitigation for capital adequacy purpose.

For all facilities except instalment mortgages, non-revolving loan supported by recognized guarantee and margin finance not hitting the required conditions, it is the Company's policy that they should be reviewed at least on an annual basis, with the collateral (if any) being revalued during the review. Where facilities have been overdue and are tangibly secured, the collateral must be revalued at a minimum of once every month.

For mortgages, valuation on the mortgaged property must be updated at a minimum of once every year through the consistent use of real estate price indices. When the market is subject to significant changes in conditions, valuation should be updated more frequently. For accounts past due over 120 days, an updated valuation through a panel surveyor on the mortgaged property is required. An updated valuation must be obtained on an annual basis or earlier if there is a reason to believe that the value of the mortgaged property has declined.

For Margin and Securities backed Finance facilities, all collaterals are subject to daily mark-to-market revaluation; and margin calls must be initiated if the equity position has deteriorated to the margin trigger level. The frequency of revaluation may be intensified under the volatile market scenario.

The main types of recognized collateral taken by the Company includes cash on deposit, real estate properties, units or shares in collective investment schemes and various recognized debt securities, government guarantees and insurance policies.

The credit and market risks concentrations within the recognized collateral and guarantees used by the Company are considered to be immaterial.



(i) **Additional disclosures on credit risk management (continued)**

(vi) **Market risk**

The Company has adopted the Standardized Approach in the calculation of the market risk capital charge.

|                            | 2016  | 2015  |
|----------------------------|-------|-------|
| Capital charge for:        |       |       |
| Foreign exchange exposures | 3,469 | 4,351 |
|                            | 3,469 | 4,351 |

(vii) **Equity exposures**

|                  | 2016   | 2015   |
|------------------|--------|--------|
| Equity exposures | 33,828 | 33,828 |
|                  | 33,828 | 33,828 |

The Company's membership with investee companies amounting to HK\$33,828 thousand (2015: HK\$33,828 thousand), which are included in the Other Assets in the balance sheet are considered instrumental in daily banking and credit card operations.

The investment in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably are carried at cost. They are periodically evaluated for other-than-temporary impairment. Note 1(d) and (f) detail the accounting practices as well as impairment valuation methodologies, assumptions and practices for the equity investments. There were no significant changes to the practices applied in 2016.

(viii) **Interest rate exposures**

The Company's variations in earnings for significant upward and downward interest rate movements in accordance with the method used in the HKMA Interest Rate Return (MA(BS)12) are as follows:

|  | Increase/(Decrease) in earnings<br>over the next 12 months |
|--|--|
| Interest rate rises by 200 basis points: |  |
| 2016                                     |  |
| HKD                                      | 34,000   |
| USD                                      | (596,000)  |
|  | (562,000)  |
| 2015                                     |  |
| HKD                                      | 92,000   |
| USD                                      | (533,000)  |
|  | (441,000)  |

**(i) Additional disclosures on credit risk management (continued)**

**(ix) Currency risk**

The net position in foreign currencies are disclosed when the individual currency constitutes not less than 10% of the total net position in all foreign currencies:

| 2016                              | USD          | RMB         |
|-----------------------------------|--------------|-------------|
| 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 non- structural position | 93,426       | 30,567      |
|                                   |              |             |
| 2015                              | USD          | RMB         |
| Spot assets                       | 51,096,893   | 786,039     |
| Spot liabilities                  | (37,524,564) | (2,995,210) |
| Forward purchases                 | 1,504,577    | 2,309,973   |
| Forward sales                     | (15,011,139) | (71,723)    |
| Net long non- structural position | 65,767       | 29,079      |

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

**(i) Corporate governance**

The Company is a wholly owned subsidiary of Citigroup Inc. and falls under the Citigroup corporate governance infrastructure. Under this structure, the Company is committed to high standards of corporate governance and its activities are monitored by the various committees which the Group has in place in Hong Kong and globally. In addition, the Board has established a member of specialised committees to assist in the Board's oversight of certain of certain major functional areas. The Company has fully complied throughout the year with the guideline in the Supervisory Policy Manual CG-1 “Corporate Governance of Locally Incorporated Authorized Institutions” issued by the HKMA.

*Board committees*

The Company has a number of committees under the Board, including the Credit Committee, Asset and Liability Committee, Audit Committee, Risk Management Committee and Nomination Committee.

**(j) Corporate governance (continued)**

(i) Credit Committee

The Credit Committee meets monthly to review the booking quality and credit performance of the asset portfolios. The Chief Executive, Chief Financial Officer, Business Heads, Credit Operation Director, Consumer Risk Management Director, Local Commercial Bank Credit Risk Director and Risk Managers of various asset products are members of the Credit Committee.

(ii) Asset and Liability Committee

The Asset and Liability Committee is responsible for the implementation and maintenance of the overall risk management framework relating to balance sheet structure, market risks, funding and liquidity management across all Hong Kong's banking business. It recommends policy and guidelines to the Board. The Committee comprises the Chief Executive, the Chief Financial Officer, the Treasurer and the Chief Credit Officer of all Company's banking business. It meets monthly or more often when conditions require.

(iii) Audit Committee

The Audit Committee meets regularly with the senior management of financial control, internal audit, legal and compliance and the external auditors to review and discuss financial performance, consider the nature and scope of audit review and the effectiveness of the systems of internal control and compliance with local regulations. The Committee also discusses matters raised by the external auditors and ensures that all audit recommendations are implemented. The Committee comprises all four independent non-executive directors of the Company.

(iv) Risk Management Committee

The Risk Management Committee assists the Board in fulfilling its oversight responsibility relating to the establishment and operation of a risk management system, including reviewing the adequacy of risk management practices for the material risks such as credit, market, liquidity, legal, compliance, regulatory and operational risks, on a regular basis. The Committee comprises all Independent Non-Executive Directors, Risk Management Head, the Chief Financial Officer and the Operations & Technology Head.

(v) Nomination Committee

The Nomination Committee is established to identify individuals suitably qualified to become Board members, make recommendations on appointment or re-appointment of directors and succession planning for directors and the Chief Executive, review the Board's structure, size, composition and review the efficiency and effectiveness of the functioning of the Board. The Committee comprises all Independent Non-executive Directors of the Company, the Chairman of the Board, the Chief Executive and the Head of Country Human Resources.