Citibank (Hong Kong) Limited

Financial Information Disclosure Statements

2019 Annual

CITIBANK (HONG KONG) LIMITED

We enclose herewith the Financial Information Disclosure Statement for the year ended December 31, 2019, which are prepared under the Banking (Disclosure) Rules made pursuant to Section 60A of the Banking Ordinance.

By Order of the Board

Lam Chi Kong Lawrence
Director and Alternate Chief Executive

April 29, 2020

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, 2019.

2019 Full Year Results

• Operating Income down 2% to HK$ 7,696 million (HK$ 7,826 million for 2018)

• Profit before taxation down 7% to HK$ 3,274 million (HK$ 3,517 million for 2018)

• Profit after tax down 8% to HK$ 2,800 million (HK$ 3,035 million for 2018)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Note	*2019*	*2018*
Interest income	3	5,722,419	4,598,684
Interest expense	3	(2,087,249)	(1,060,960)
Net interest income		**3,635,170**	**3,537,724**
Net fee and commission income	4	3,399,325	3,360,819
Net trading income	5	645,139	877,353
Dividend income from unlisted investment		2,707	4,052
Other operating income		13,997	45,908
Operating income		**7,696,338**	**7,825,856**
Staff costs		(1,213,377)	(1,205,002)
Premises & equipment expenses		(68,267)	(304,842)
Depreciation expenses		(260,831)	(48,634)
Other operating expenses		(2,672,178)	(2,633,664)
Operating expenses		**(4,214,653)**	**(4,192,142)**
Operating profit before impairment		**3,481,685**	**3,633,714**
Impairment losses	6	(206,058)	(116,551)
Operating profit after impairment		**3,275,627**	**3,517,163**
Loss from disposal of property, plant and equipment		(1,297)	-
Profit before taxation		**3,274,330**	**3,517,163**
Taxation	7	(474,590)	(481,883)
Profit for the year		**2,799,740**	**3,035,280**
Other comprehensive income for the year, net of tax			
Items that will not be classified to profit or loss:			
Remeasurement of defined benefit plan		33	20
Items that may be classified subsequently to profit or loss:			
Changes in fair value of financial assets through other comphensive income		(6,024)	14,613
Other comprehensive income for the year		**(5,991)**	**14,633**
Total comprehensive income for the year		**2,793,749**	**3,049,913**

STATEMENT OF FINANCIAL POSITION

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

	Note	*2019*	*2018*
Assets			
Cash and balances with banks, central banks and other financial institutions		12,949,226	9,280,836
Placements with banks and other financial institutions	8	9,047,648	11,338,603
Loans and advances	9	131,060,164	112,538,429
Trade bills		-	13,313
Financial assets at fair value through profit or loss	10	51,638,058	55,731,792
Financial assets at fair value through other comphensive income	11	24,100,132	31,220,807
Property, plant and equipment	12	827,895	382,991
Intangible assets		49,327	67,704
Deferred tax assets		68,348	55,816
Other assets		3,086,413	3,297,926
		232,827,211	223,928,217
Liabilities			
Deposits and balances from banks and other financial institutions		30,158,731	27,003,586
Deposits from customers	13	174,758,805	169,383,388
Trading financial liabilities	14	36,200	81,880
Current taxation		526,034	46,085
Other liabilities		4,511,934	4,418,848
		209,991,704	200,933,787
Equity			
Share capital		7,348,440	7,348,440
Reserves	15	15,487,067	15,645,990
		22,835,507	22,994,430
		232,827,211	223,928,217

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	99,321,834	83,178,792
Deposits from customers	175,406,887	170,060,783

CASH FLOW STATEMENT

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

	Note	*2019*	*2018*
Operating activities			
Profit before taxation		3,274,330	3,517,163
Adjustments for:			
- Interest received on financial assets at fair value through other comprehensive income		(499,776)	(379,957)
- Dividends received		(2,707)	(4,052)
- Depreciation		260,831	48,634
- Amortization of intangible assets		28,377	30,141
- Impairment losses on loans and advances to customers		204,968	117,270
- Write-back of impairment losses on other financial instruments		-	(719)
- Equity-settled share-based payment expense		3,842	1,789
- Loss from disposal of property, plant and equipment		1,297	-
- Write-off of construction in progress		1,500	5,396
		3,272,662	3,335,665
Decrease/(increase) in operating assets:			
Financial assets at fair value through profit or loss		(5,512,662)	(10,051,319)
Cash and balances with banks, central banks and other financial institutions with original maturity beyond three months		1,047,866	(790,494)
Loans and advances and trade bills		(18,713,390)	(5,067,165)
Placements with banks and other financial institutions with original maturity beyond three months		2,308,983	(6,086,606)
Other assets		211,513	127,588
		(20,657,690)	(21,867,996)
Decrease/(increase) in operating liabilities			
Trading financial liabilities		(45,680)	57,988
Deposits from customers		5,375,417	15,181,824
Deposits from banks and other financial institutions		2,300,051	26,894,063
Other liabilities		73,767	(602,425)
		7,703,555	41,531,450
Cash (used in)/generated from operations		(9,681,473)	22,999,119

CASH FLOW STATEMENT (CONTINUED)

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

	Note	*2019*	*2018*
Income tax paid			
- Hong Kong Profits Tax paid		-	(473,326)
- Overseas Tax paid		(5,747)	(6,160)
Net cash (used in)/generated from operating activities		(9,687,220)	22,519,633
Investing activities			
Payment for purchase of intangible assets		(10,000)	(12,032)
Payment for purchase of property, plant and equipment		(472,343)	(29,996)
Proceeds from sale of financial assets at fair value through other comprehensive income with original maturity beyond three months		31,220,807	27,230,320
Payment for purchase of financial assets at fair value through other comprehensive income with original maturity beyond three months		(24,107,582)	(31,202,217)
Interest received on financial assets at fair value through other comprehensive income		499,776	379,957
Dividends received		2,707	4,052
Net cash generated from/(used in) investing activities		7,133,365	(3,629,916)
Financing activities			
Dividends paid to equity shareholder of the Company		(2,954,856)	(1,372,093)
Interest element of lease rentals paid		(7,470)	-
Capital element of lease rentals paid		(211,025)	-
Net cash used in financing activities		(3,173,351)	(1,372,093)
Net (decrease)/increase in cash and cash equivalents		(5,727,206)	17,517,624
Cash and cash equivalents at 1 January		43,419,926	25,902,302
Cash and cash equivalents at 31 December	16	37,692,720	43,419,926
Cash flows from operating activities include:			
Interest received		5,674,543	4,513,010
Interest paid		(2,062,969)	(859,810)

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, measured at fair value through profit or loss and measured at fair value through other comprehensive income (see note 1(d)).

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:

- 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 initially recognises loans and advances, deposits, debt securities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not measured at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

1 Significant accounting policies (continued)

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Company's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

1 Significant accounting policies (continued)

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. nonrecourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets. When (and only when) the Company changes its business model for managing financial assets, it reclassifies all affected financial assets in accordance with the new business model. The reclassification should be applied prospectively from the 'reclassification date', which is defined as, 'the first day of the first reporting period following the change in business model that results in reclassifying financial assets'. Accordingly, any previously recognised gains, losses or interest will not be restated.

If a financial asset is reclassified out of the amortised cost measurement category and into the FVTPL or FVOCI measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss (if reclassification as FVTPL measurement category) or is recognised in other comprehensive income (if reclassification as FVOCI measurement category).

If a financial asset is reclassified out of the FVOCI measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the classification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost.

If a financial asset is reclassified out of the FVOCI measurement category and into the FVTPL measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

1 Significant accounting policies (continued)

If a financial asset is reclassified out of the FVTPL measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

If an entity reclassifies a financial asset out of the FVTPL measurement category and into the FVOCI measurement category, the financial asset continues to be measured at fair value and subsequent changes in fair value will be recognised in other comprehensive income.

Financial liabilities

The Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

(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 statement of 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)

(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 statement of financial position 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

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

1 Significant accounting policies (continued)

(vii) ***Credit losses and impairment of assets***

The Company recognises loss allowances for expected credit loss on financial assets measured at amortised cost and FVOCI.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- financial assets that are determined to have low credit risk at the reporting date; and
- other financial assets for which credit risk (i.e. the risk of default occurring over the expected life of the asset) has not increased significantly since initial recognition

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive); and
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

1 Significant accounting policies (continued)

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments: generally, as a provision;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

1 Significant accounting policies (continued)

(e) *Property, plant and equipment*

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses.

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 recognised 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 non-financial 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 recognised 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).

1 Significant accounting policies (continued)

(f) Impairment of non-financial assets (continued)

Recognition of impairment losses

An impairment loss is recognised 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 recognised 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 of disposal (if measurable) or value in use (if determinable).

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 recognised in prior years. Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised.

(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 operating expenses. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from 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 end of the reporting period, 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 utilised, are recognised. 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 utilised. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for the Company.

The amount of deferred tax recognised is measured based on the expected manner of realisation 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

Income is classified by the Company as revenue when it arises from the sale of goods, the provision of services in the ordinary course of the Company's business.

Revenue is recognised when control over a product or service is transferred to the customer,
or the lessee has the right to use the asset, at the amount of promised consideration to which the Company is expected to be entitled, excluding those amounts collected on behalf
of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Company's revenue and other income recognition policies are as
follows:

(i) Interest income

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or

- the amortised cost of the financial liability.

1 Significant accounting policies (continued)

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 1(d)(vii).

1 Significant accounting policies (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) Leased assets

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

1 Significant accounting policies (continued)

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Company has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Company recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Company, are primarily laptops and office furniture. When the Company enters into a lease in respect of a low-value asset, the Company decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(f)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Company will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

In the statement of financial position, the Company presents right-of-use assets within the same line item as similar underlying assets and presents lease liabilities separately.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Company classified leases as operating leases as the leases did not transfer substantially all the risks and rewards of ownership to the Company.

Where the Company had the use of other assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

1 Significant accounting policies (continued)

(m) 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.

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 measured 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.

(n) 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 Compnay 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 Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Company.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Company's results and financial position for the current or prior periods have been prepared or presented. The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Company has initially applied HKFRS 16 as from 1 January 2019. The Company has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

2 Changes in accounting policies (continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Company applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Company has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Company is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Company is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 12. For an explanation of how the Company applies lessee accounting, see note 1(l)(i).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Company determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 2.60%.

To ease the transition to HKFRS 16, the Company applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Company elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Company applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Company relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

2 Changes in accounting policies (continued)

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019
Operating lease commitments at 31 December 2018	250,711
Less: total future interest expenses	(11,321)
Total lease liabilities recognised at 1 January 2019	239,390

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018. There is no impact on the opening balance of equity.

The following table summarises the impacts of the adoption of HKFRS 16 on the Company's statement of financial position:

	Carrying amount at 31 December 2018	*Capitalisation of operating lease contracts*	*Carrying amount at 1 January 2019*
Line items in the statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	382,991	236,189	619,180
Total assets	382,991	236,189	619,180
Other liabilities			
- Lease Liabilities	-	239,390	239,390
- Other accounts	3,201	(3,201)	-
Total liabilities	3,201	236,189	239,390
Net assets	379,790	-	379,790

3 Interest income and interest expense

(a) Interest income

	2019	*2018*
Interest income on loans to customers	3,194,606	2,857,235
Interest income on placements with banks and other financial institutions	929,251	860,628
Interest income on investments		
- Listed	1,229	4,711
- Unlisted	498,547	375,246
Interest income on financial instruments that are not measured at fair value through profit or loss	4,623,633	4,097,820
Interest income on financial assets designated at fair value through profit or loss		
- Listed	626	1,917
- Unlisted	1,098,160	498,947
Total interest income from all financial assets	5,722,419	4,598,684

Included in the above is interest income accrued on impaired financial assets of HK$3,802 thousand (2018: HK$3,185 thousand).

(b) Interest expense

	2019	*2018*
Interest expense on deposits from customers	1,446,548	888,673
Interest expense on deposits from banks and other financial institutions	633,231	172,287
Others	7,470	-
Interest expense on financial instruments that are not measured at fair value through profit or loss	2,087,249	1,060,960

4 Fee and commission income

	2019	*2018*
Fee and commission income from retail banking	1,668,775	1,627,861
Fee and commission income from card business	1,000,169	996,030
Service fee from group companies	874,695	855,888
	3,543,639	3,479,779
Fee and commission expenses	(144,314)	(118,960)
	3,399,325	3,360,819

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 measured at fair value through profit or loss.

5 Net trading income

	2019	*2018*
Net gain from foreign exchange	590,216	509,863
Net gain from financial assets measured at fair value through profit or loss	54,923	367,490
	645,139	877,353

6 Impairment losses

	2019	*2018*
Impairment losses		
Cash and balances with banks and other financial institutions	(23)	57
Placements with banks and other financial institutions	(74)	99
Loans and advances with banks	(10)	29
Loans and advances with customers	204,968	117,270
Financial assets at fair value through other comphensive income	1,195	(909)
Other assets	2	5
	206,058	116,551

7 Taxation

	2019	*2018*
Provision for Hong Kong Profits Tax	479,949	463,285
Overseas Taxation	5,747	6,160
Deferred Taxation	(11,106)	12,438
	474,590	481,883

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year.

8 Placements with banks and other financial institutions

	2019	*2018*
Maturing between one month and one year	9,047,689	11,338,718
Less: Impairment allowances		
- Stage 1	(41)	(115)
- Stage 2	-	-
- Stage 3	-	-
	9,047,648	11,338,603

9 Loans and advances

(a) Loans and advances less impairment

	2019	*2018*
Gross loans and advances to customers	99,070,064	82,842,316
Less: Impairment allowances		
- Stage 1	(174,832)	(151,180)
- Stage 2	(182,760)	(159,568)
- Stage 3	(38,720)	(30,171)
	98,673,752	82,501,397
Gross loans and advances to banks	32,386,559	30,037,189
Less: Impairment allowances		
- Stage 1	(147)	(157)
- Stage 2	-	-
- Stage 3	-	-
	131,060,164	112,538,429

9 Loans and advances (continued)

(b) Movement in impairment allowances on loans and advances

The following tables show reconciliations from the opening to the closing balance of the impairment allowances on loans and advances to customers. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 1(d)(vii).

	2019			
	12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	*Total*
At January 1, 2019	151,180	159,568	30,171	340,919
Transfer to 12-month ECL	81,137	(80,366)	(771)	-
Transfer to lifetime ECL not credit-impaired	(2,724)	2,774	(50)	-
Transfer to lifetime ECL credit-impaired	(8,922)	(42,329)	51,251	-
Impairment losses charged to income statement:				
Net remeasurement of loss allowance	(49,978)	127,440	101,309	178,771
New financial assets originated or puchased, assets derecognised, repayment and further lending	4,139	15,673	6,385	26,197
Amounts written off	-	-	(250,886)	(250,886)
Recoveries of loans and advances written off	-	-	101,311	101,311
At December 31, 2019	174,832	182,760	38,720	396,312

	2018			
	12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	*Total*
At January 1, 2018	169,704	163,777	32,060	365,541
Transfer to 12-month ECL	95,203	(93,650)	(1,553)	-
Transfer to lifetime ECL not credit-impaired	(5,302)	5,314	(12)	-
Transfer to lifetime ECL credit-impaired	(18,455)	(35,819)	54,274	-
Impairment losses charged to income statement:				
Net remeasurement of loss allowance	(91,559)	103,607	106,524	118,572
New financial assets originated or puchased, assets derecognised, repayment and futher lending	1,589	16,339	(19,230)	(1,302)
Amounts written off	-	-	(258,171)	(258,171)
Recoveries of loans and advances written off	-	-	116,279	116,279
At December 31, 2018	151,180	159,568	30,171	340,919

9 Loans and advances (continued)

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

Loans and advances to customers for use in Hong Kong	*2019*	*2018*
Industrial, commercial and financial		
- Property investment	3,083,098	3,268,466
- Wholesale and retail trade	63,211	176,815
- Manufacturing	8,588	30,171
- Others	37,916	77,808
Individuals		
- Loans for the purchase of other residential properties	55,171,177	46,146,603
- Credit card advances	13,473,213	13,389,982
- Others	27,869,597	19,966,071
	99,706,800	83,055,916
Netting adjustment on account of foreign currency margin products	(648,082)	(677,395)
Total loans and advances to customers for use in Hong Kong	99,058,718	82,378,521
Loans and advances to customers for use outside Hong Kong	11,346	10,506
Trade finance	-	453,289
Total	99,070,064	82,842,316

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

	2019		*2018*	
	Amount	*% of total loans and advances to customers*	*Amount*	*% of total loans and advances to customers*
Overdue loans and advances to customers	44,706	0.05%	36,194	0.04%
Rescheduled loans and advances to customers	21,926	0.02%	21,340	0.03%
Gross impaired loans and advances to customers	66,632	0.07%	57,534	0.07%

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

	2019	2018
Financial assets designated at fair value through profit or loss		
Treasury bills (including exchange fund notes)	50,905,062	55,086,603
Equity securities	650,000	596,000
Trading financial assets		
Positive fair value of derivatives (note 17b)	82,996	49,189
	51,638,058	55,731,792
Issued by:		
- Sovereigns	50,905,062	55,086,603
- Corporates	650,000	596,000
	51,555,062	55,682,603
Analyzed by place of listing:		
- Listed outside Hong Kong	-	47,617
- Unlisted	51,555,062	55,634,986
	51,555,062	55,682,603

11 Financial assets at fair value through other comprehensive income

	2019	2018
Exchange fund notes	21,925,609	28,862,824
Debt securities	2,174,523	2,357,983
	24,100,132	31,220,807
Issued by:		
- Sovereigns	21,925,609	28,862,824
- Corporates	2,174,523	2,208,742
- Banks	-	149,241
	24,100,132	31,220,807
Analyzed by place of listing:		
- Unlisted	24,100,132	31,220,807
	24,100,132	31,220,807

12 Property, plant and equipment

	Buildings held for own use carried at cost	*Right-of-use assets*	*Installations, plant, manchinery and other assets*	*Construction in progress*	*Total property, plant and equipment*
Cost or valuation:					
At January 1, 2019	405,528	-	415,277	9,207	830,012
Impact on intial application of HKFRS 16	-	236,189	-	-	236,189
Adjusted balance at 1 January 2019	405,528	236,189	415,277	9,207	1,066,201
Additions	-	388,465	3,047	80,831	472,343
Transfer	-	-	28,425	(28,425)	-
Write-offs	-	-	(17,491)	(1,500)	(18,991)
At December 31, 2019	405,528	624,654	429,258	60,113	1,519,553
Accumulated depreciation:					
At January 1, 2019	112,874	-	334,147	-	447,021
Charge for the year	8,111	211,440	41,280	-	260,831
Write-offs	-	-	(16,194)	-	(16,194)
At December 31, 2019	120,985	211,440	359,233	-	691,658
Net book value:					
At December 31, 2019	284,543	413,214	70,025	60,113	827,895

	Buildings held for own use carried at cost	*Right-of-use assets*	*Plant, manchinery and other assets*	*Installations*	*Construction in progress*	*Total property, plant and equipment*
Cost or valuation:						
At January 1, 2018	405,528	-	141,383	231,126	27,400	805,437
Additions	-	-	3,342	-	26,654	29,996
Transfer	-	-	1,768	37,683	(39,451)	-
Write-offs	-	-	(25)	-	(5,396)	(5,421)
At December 31, 2018	405,528	-	146,468	268,809	9,207	830,012
Accumulated depreciation:						
At January 1, 2018	104,763	-	114,270	179,379	-	398,412
Charge for the year	8,111	-	10,739	29,784	-	48,634
Write-offs	-	-	(25)	-	-	(25)
At December 31, 2018	112,874	-	124,984	209,163	-	447,021
Net book value:						
At December 31, 2018	292,654	-	21,484	59,646	9,207	382,991

13 Deposits from customers

	2019	*2018*
Demand deposits and current accounts	32,504,494	31,798,387
Savings deposits	80,764,983	80,540,712
Time, call and notice deposits	61,489,328	57,044,289
	174,758,805	169,383,388

14 Trading financial liabilities

	2019	*2018*
Negative fair value of derivatives (note 17b)	36,200	81,880

15 Reserves

	Capital reserves	*Fair value reserve*	*Retained profits*	*Total*
At January 1, 2019	(12,993)	(303)	15,659,286	15,645,990
Changes in reserves for 2019:				
Share-based payment transactions, net of tax	2,184	-	-	2,184
Total comprehensive income for the year	-	(6,024)	2,799,773	2,793,749
Dividend declared in respect of the current year	-	-	(2,954,856)	(2,954,856)
At December 31, 2019	(10,809)	(6,327)	15,504,203	15,487,067

	Capital reserves	*Fair value reserve*	*Retained profits*	*Total*
At January 1, 2018	(10,613)	161,682	13,921,880	14,072,949
Impact on initial application of HKFRS 9	-	(176,598)	74,199	(102,399)
Changes in reserves for 2018:				
Share-based payment transactions, net of tax	(2,380)	-	-	(2,380)
Total comprehensive income for the year	-	14,613	3,035,300	3,049,913
Dividend declared in respect of the current year	-	-	(1,372,093)	(1,372,093)
At December 31, 2018	(12,993)	(303)	15,659,286	15,645,990

15 Reserves (continued)

(a) Nature and purpose of reserves

Fair value reserve

This reserve comprises the cumulative net change in fair value of FVOCI debt securities measured at FVOCI under HKFRS 9 held at the end of the reporting period (note 1(d)).

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

To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Company has earmarked a regulatory reserve directly from retained profits. As of December 31, 2019, the effect of this requirement is to reduce the amount of reserves which can be distributed to equity shareholders by $629,618 thousand (2018: $783,361 thousand).

(c) Distributability of reserves

At 31 December 2019, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$14,249,506 thousand (2018: HK$14,304,484 thousand).

(d) The directors did not propose any final dividend (2018: $Nil) after the year end.

16 Cash and cash equivalents

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

	2019	*2018*
Cash and balances with banks, central banks and other financial institutions with original maturity within three months	12,291,708	7,575,452
Placements with banks and other financial institutions with original maturity within three months	66,413	48,385
Financial assets designated at fair value through profit or loss with original maturity within three months	26,210,258	35,816,654
	38,568,379	43,440,491
Less: Overdrafts	(875,659)	(20,565)
Cash and cash equivalents in the cash flow statement	37,692,720	43,419,926

(b) Reconciliation with the statement of financial position

	2019	*2018*
Cash and balances with banks, central banks and other financial institutions	12,949,284	9,280,917
Placements with banks and other financial institutions	9,047,689	11,338,718
Financial assets designated at fair value through profit or loss		
- Treasury bills	50,905,062	55,086,603
Financial assets designated at fair value through other comprehensive income		
- Exchange fund notes	21,925,609	28,862,824
- Debt securities	2,174,523	2,357,983
Amounts shown in the statement of financial position	97,002,167	106,927,045
Less: Amounts with an original maturity of beyond three months	(58,433,788)	(63,486,554)
Less: Overdrafts	(875,659)	(20,565)
Cash and cash equivalents in the cash flow statement	37,692,720	43,419,926

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.

	2019	*2018*
Currency derivatives		
Forwards and futures	9,152,558	8,549,000
Options purchased	2,288,638	2,716,649
Options written	2,288,638	2,716,649
	13,729,834	13,982,298

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

	2019			*2018*		
	Fair value		*Credit risk weighted amount*	*Fair value*		*Credit risk weighted amount*
	Assets	*Liabilities*		*Assets*	*Liabilities*	
Currency derivatives	82,996	36,200	72,836	49,189	81,880	41,928

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

	2019	*2018*
Contractual or notional amounts		
Trade-related contingencies	-	-
Forward forward deposits placed	39	1,240
Other commitments		
- with an original maturity of not more than one year	606,477	1,764,636
- with an original maturity of more than one year	728,002	791,120
- which are unconditionally cancellable	79,437,146	76,287,648
	80,771,664	78,844,644
Credit risk weighted amounts	200,030	313,541

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: risk of loss resulting from the decline in credit quality (or downgrade risk) or failure of a borrower, counterparty, third party or issuer to honor its financial or contractual obligations.

- 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 collateral;
- 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 many 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/or Asset and Liability Management Committee, 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. These are governed by Citi Mark to Market Policy.

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.

Derivative instruments shall be reflected in the trading systems which feeds to Risk system. Market Risk Reporting Unit prepares risk reports for exposure usage monitoring against the limits as approved. Reporting Unit sends the report to the business, market risk management for limit monitoring purpose. Once there are limit excess, it will be communicated between Treasury Department and Market Risk Management on the resolution plan and timeline and trace of resolution. The models and parameters in the systems are regularly updated and assessed as defined in the Citi policies.

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 next 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

Interest Rate Risk in the Banking Book ("IRRBB") pertains to the risk to the Company's financial condition resulting from adverse movements in interest rates that affect the Company's capital and earnings. The Company's principal measures of risk to economic value of equity ("EVE") and net interest income ("NII") are defined based on the standardized framework described in the Supervisory Policy Manual module IR-1 "Interest Rate Risk in the Banking Book" and in accordance with the method used in the Return on Interest Rate Risk in the Banking Book (MA(BS)12A).

Through the treasury discipline, IRRBB is managed within the limits that are reviewed and monitored by the Company's independent Treasury Risk organization, Asset and Liability Committee (ALCO) and the Board. The Company has an established IRRBB limit framework for identified risk factors that clearly defines approved risk profiles and is within the Treasury Risk Appetite Framework. In order to manage IRRBB effectively, the Company may take hedging actions or restructure existing positions to reduce IRRBB. The Company regularly assesses viability of these actions and other strategies, including further strengthening its capital position, and implement such strategies when deemed prudent, ensuring the Company operates well within established limits.

IRRBB regulatory reporting and monitoring is done on a quarterly basis. IRRBB measures from this return, including any hedging strategies or actions to reduce IRRBB, are presented to the ALCO and the Board. In addition to and in accordance with global firm-specific standards, IRRBB based on internal methodologies and assumptions is monitored on a daily as well as monthly basis. While the Company uses internally defined standard interest rate shocks and scenario assumptions for internal risk reports, rate models and other assumptions that relate to interest rate risk sensitivity are consistent between internal monitoring and regulatory reporting. These models and assumptions are reviewed and validated on an annual basis, at the minimum, and where applicable, are governed by an established Model Risk Management Policy.

The Company employs additional measurements of vulnerability to loss, including stress testing based on the six standardized interest rate shocks defined by the HKMA and internally selected scenarios that reflect plausible balance sheet and risk changes as observed in the past as well as based on hypothetical or forward-looking assumptions. Potential impact from these changes is considered when reviewing policy, setting limits as well as assessing capital adequacy.

In calculating change in NII, the Company assumes that businesses and/or the Treasury make no additional changes in balances or positioning in response to the unanticipated rate changes. A static balance sheet is maintained throughout the 12 month forecast horizon, remaining constant in terms of size and product mix regardless of the interest rate scenario with maturing instruments being replaced with ones of the same original tenor and repricing terms. No prepayment and early redemption assumptions are considered for loans and time deposits as risk from these options have been assessed as immaterial and impact is curbed by the penalty fee structure in place. Optionality risks in existing as well as new products are assessed and reviewed on a regular basis, and when it is believed to be material, are incorporated into the IRRBB measurements.

19 Financial risk management (continued)

(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 Citibank, N.A.-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 are made up of current and savings accounts and time deposits. The customer deposits are widely diversified by type and maturity and represent a stable source of funding.

Policies and Procedures

The Company has established an Asset and Liability Management Committee ("ALCO"). The ALCO Charter includes the monitoring and control of liquidity and funding. ALCO monitors trends in statement of financial position 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
- Liquidity ratios
- Loan to deposit ratio
- Daily S2
- Monthly S4
- Resolution Liquidity Adequacy and Positioning ("RLAP")

All limits and internal targets are reviewed at least annually together with Funding and Liquidity Plan ("FLP") and more frequently if required, to ensure that they are 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 statement of financial position (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.

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 Bank, those stress tests and potential mismatches may be calculated with varying frequencies, with several important tests performed daily. All assumptions used in the stress scenarios must be approved under the process of “Annual Funding and Liquidity Plan”.

S2-“Highly Stressed Market Disruption Scenario” is Citi’s primary long term stress metrics. Assumes market, credit and economic conditions are moderately to high stressed with potential further deterioration, and is used to measure a 12 month survival, i.e. CHKL must maintain sufficient liquidity to meet all maturing obligations with 12 months under the S2 stress scenario. S2 is prepared daily for all major currencies including HKD, CNY and G10 currencies. Other minor currencies are included in the S2 Universal.

S4 - “Institution Specific and Local Market Scenario” is represented a significant local market disruption such as a collapse of a major local bank, or an abrupt change in the regulatory or political environment, which will affect the liquidity available to that market. It requires a self-sufficiency period over a 3 month period is performed in a monthly basis. In addition to monitoring by tenor bucket, the day by day S4 position from overnight to Day 15 is also exhibited for monitoring to ensure daily surplus liquidity is maintained.

19 Financial risk management (continued)

(c) Liquidity risk management (continued)

Resolution Liquidity Adequacy and Positioning (RLAP) -is a ratio based on internal stressed outflows assumptions and internal definition of liquidity resources. It is designed to ensure there are sufficient liquidity resources to withstand outflows associated with Resolution scenario with a 30 day survival period under a severely stress market condition. Assumptions are internally developed and expected to be closely aligned with the old LCR Prime and ratio is produced and monitor on daily basis.

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, 2019, High Quality Liquid Assets (HQLA) held by the bank are mostly unencumbered assets, except a small portion of Hong Kong exchange fund bills and Chinese government bond which are set aside for intraday liquidity needs.

The Company maintains a sufficient cushion of HQLA which can be sold or used as collateral to provide liquidity under 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$72 billion as of December 31, 2019.

Citibank, N.A.'s credit ratings as at the end of December, 2019 were A+(S&P) and Aa3 (Moody's). Given that Citibank other entities are our only counterparties for these derivative transactions and cash positions are held or posted as collateral according to the mark to market of the contracts. Citibank's credit ratings downgrade has minimal impact on Bank's derivative 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.

2019	*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*
Assets								
Cash and balances with banks, central banks and other financial institutions	12,949,226	4,330,353	8,618,873	-	-	-	-	-
Placements with banks and other financial institutions	9,047,648	-	-	1,372,589	7,675,059	-	-	-
Loans and advances	131,060,164	8,578,103	488,719	4,456,512	18,558,509	53,196,459	45,620,595	161,267
Trade bills	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	51,638,058	-	18,000,221	27,541,587	5,363,254	-	-	732,996
- included in financial assets at fair value through other comprehensive income	24,100,132	-	1,048,873	6,437,458	14,439,278	2,174,523	-	-
Non-interest bearing assets	4,031,983	-	-	-	-	-	-	4,031,983
	232,827,211	12,908,456	28,156,686	39,808,146	46,036,100	55,370,982	45,620,595	4,926,246
Liabilities								
Deposits and balances from banks and other financial institutions	30,158,731	875,659	15,588,705	511,324	2,359,621	10,823,422	-	-
Deposits from customers	174,758,805	113,269,477	36,188,003	24,208,500	1,092,825	-	-	-
Trading financial liabilities	36,200	-	-	-	-	-	-	36,200
Non-interest bearing liabilities	5,037,968	-	16,790	33,677	128,050	235,040	-	4,624,411
	209,991,704	114,145,136	51,793,498	24,753,501	3,580,496	11,058,462	-	4,660,611
Commitments								
Other commitments	80,771,625	80,165,148	353,197	160,321	92,959	-	-	-
Forward deposits placed	39	-	39	-	-	-	-	-
	80,771,664	80,165,148	353,236	160,321	92,959	-	-	-
Of which:								
Debt securities								
- included in financial assets at fair value through profit or loss	50,905,062	-	18,000,221	27,541,587	5,363,254	-	-	-
- included in financial assets at fair value through other comprehensive income	24,100,132	-	1,048,873	6,437,458	14,439,278	2,174,523	-	-
	75,005,194	-	19,049,094	33,979,045	19,802,532	2,174,523	-	-

19 Financial risk management (continued)

(c) Liquidity risk management (continued)

2018	*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*
Assets								
Cash and balances with banks, central banks and other financial institutions	9,280,836	2,901,430	6,379,406	-	-	-	-	-
Placements with banks and other financial institutions	11,338,603	-	-	2,596,110	8,742,493	-	-	-
Loans and advances	112,538,429	9,178,799	605,044	1,662,500	13,852,941	48,740,326	38,380,494	118,325
Trade bills	13,313	-	4,190	9,123	-	-	-	-
Financial assets at fair value through profit or loss	55,731,792	-	20,590,259	29,066,997	5,429,347	-	-	645,189
- included in financial assets at fair value through other comprehensive income	31,220,807	-	2,748,855	12,978,222	13,284,988	2,208,742	-	-
Non-interest bearing assets	3,804,437	-	-	-	-	-	-	3,804,437
	223,928,217	12,080,229	30,327,754	46,312,952	41,309,769	50,949,068	38,380,494	4,567,951
Liabilities								
Deposits and balances from banks and other financial institutions	27,003,586	20,565	21,567,154	212,329	955,479	4,248,059	-	-
Deposits from customers	169,383,388	112,339,099	30,696,968	22,605,735	3,740,803	783	-	-
Trading financial liabilities	81,880	-	-	-	-	-	-	81,880
Non-interest bearing liabilities	4,464,933	-	-	-	-	-	-	4,464,933
	200,933,787	112,359,664	52,264,122	22,818,064	4,696,282	4,248,842	-	4,546,813
Commitments								
Other commitments	78,843,404	77,078,768	1,520,438	241,198	3,000	-	-	-
Forward deposits placed	1,240	-	349	891	-	-	-	-
	78,844,644	77,078,768	1,520,787	242,089	3,000	-	-	-
Of which:								
Debt securities								
- included in financial assets at fair value through profit or loss	55,086,603	-	20,590,259	29,066,997	5,429,347	-	-	-
- included in financial assets at fair value through other comprehensive income	31,220,807	-	2,748,855	12,978,222	13,284,988	2,208,742	-	-
	86,307,410	-	23,339,114	42,045,219	18,714,335	2,208,742	-	-

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 and systems or from external events. It includes legal risk (e.g., failure to comply with applicable laws and regulations). 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 Operational Risk Management ("ORM") team establishes and oversees the design, implementation and maintenance of the Operational Risk Management Framework ("ORMF"). The ORMF establishes standards for consistent identification, measurement, monitoring, reporting and management of operational risk across Citi which are designed to lead to effective anticipation and mitigation of operational risk and improved loss experience. It also provides an enterprise-wide assessment framework for significant current and emerging operational risks. This approach furthers business ownership and accountability in terms of risk management, supported by the ORM team.

Citi's Operational Risk Framework includes a governance structure that supports core operational risk management activities of anticipation, mitigation and recovery by three lines of defence which are Business Management, Independent Control Functions (e.g. Finance, Risk, HR, Legal, Compliance), and Internal Audit.

Principles of Good Operational Risk Management:

Strong Ownership and Oversight

- Established lines of defense
- Businesses and Functions self-identify issues before Regulators and Internal Audit
- Issues are remediated on time and not reopened
- Significant events are escalated timely and consistently evaluated for lessons learned
- Governance Committees actively oversee risk identification and control remediation
- Management implements effective controls to mitigate significant risks
- Products and services are delivered as intended
- Credible second line operational risk managers

Dynamic Framework and Tools

- Risk Appetite is clearly articulated and monitored with key indicators
- Taxonomies and scoring methodologies are intuitive and used consistently
- Managers Control Assessment (MCA) provides a dynamic residual risk picture and tool for proactive prioritization
- End-to-end processes are assessed by management
- Material risks are identified and aligned with capital/stress projections
- Reporting is timely and clearly articulates the operational risk profile
- Technology platform that integrates all framework elements

19 Financial risk management (continued)

(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.

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, 2019 and 2018. 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 2019 and 2018.

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:

	Ultimate holding company		*Immediate holding company*		*Fellow subsidiaries*	
	2019	*2018*	*2019*	*2018*	*2019*	*2018*
Interest income	-	-	840,683	793,677	6,960	5,707
Interest expense	-	-	(632,277)	(172,083)	(25)	(32)
Fee and commission income	-	-	637,876	630,713	236,819	225,175
Operating expenses	-	-	(1,222,824)	(1,058,428)	(237,100)	(424,115)
For the year ended December 31	-	-	(376,542)	193,879	6,654	(193,265)
Placement of deposits						
At January 1	-	-	45,165,164	42,946,172	358,353	331,640
At December 31	-	-	49,672,632	45,165,164	380,489	358,353
Acceptance of deposits						
At January 1	-	-	27,003,586	146,756	307,578	279,794
At December 31	-	-	30,158,731	27,003,586	396,933	307,578
Cash and balances with banks and other financial institutions						
At January 1	-	-	1,555,633	2,474,479	50,655	54,298
At December 31	-	-	1,436,712	1,555,633	-	50,655
Other assets						
At January 1	-	-	1,004,614	1,004,190	31,296	33,659
At December 31	-	-	1,007,456	1,004,614	28,745	31,296
Other liabilities						
At January 1	12,196	12,690	163,187	475,942	34,669	29,523
At December 31	11,310	12,196	171,002	163,187	31,845	34,669

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:

	2019	*2018*
Short-term employee benefits	47,699	55,171
Post-employment benefits	2,365	2,739
Share-based payments	2,990	2,990
	53,054	60,900

Amounts disclosed include emoluments totaling HK$19,122,762 (2018: HK$30,079,930) 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$723,103 (2018: HK$478,085) 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) 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:

	2019	*2018*
Aggregate amount of relevant loans made by the Company outstanding at December 31	63,731	17,244
Maximum aggregate amount of relevant loans made by the Company outstanding during the year	66,377	25,357

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.

	At Dec 31, 2019	*At Dec 31, 2018*
The Company's regulatory capital position was as follows:		
Common Equity Tier 1 (CET1) capital ratio	27.05%	29.14%
Tier 1 capital ratio	27.05%	29.14%
Total capital ratio	28.11%	30.21%

Countercyclical Capital Buffer Ratio

	At Dec 31, 2019	*At Dec 31, 2018*
Countercyclical Capital Buffer Ratio	1.92%	1.80%

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

Capital Conservation Buffer Ratio

Under the Banking (Capital) Rules, the capital conservation buffer ratios for calculating the Bank's buffer level are 2.5% for 2019 and 1.875% for 2018.

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

(b) Leverage ratio

	At Dec 31, 2019	*At Dec 31, 2018*
Leverage Ratio	9.15%	9.51%

The disclosure on leverage ratio 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.

(c) 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 international claims, after recognised risk transfer, are shown as follows:

	At Dec 31, 2019				
			Non-bank private sector		
	Banks	*Offical Sector*	*Non-bank financial institutions*	*Non-financial private sector*	*Total*
Developed countries	52,799,074	45,446,380	6,688,256	1,069,377	106,003,087
of which United States	52,161,511	34,275,780	3,807,223	295,500	90,540,014

	At Dec 31, 2018				
			Non-bank private sector		
	Banks	*Offical Sector*	*Non-bank financial institutions*	*Non-financial private sector*	*Total*
Developed countries	48,360,850	47,714,760	3,888,818	835,857	100,800,285
of which United States	47,723,251	36,774,110	1,041,402	210,239	85,749,002

(d) Further analysis on loans and advances to customers

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

	2019		2018	
	Amount	*% of loans and advances covered by collateral or other security*	*Amount*	*% of loans and advances covered by collateral or other security*
Loans and advances to customers for use in Hong Kong				
Industrial, commercial and financial				
Property investment	3,083,098	100%	3,268,466	100%
Wholesale and retail trade	63,211	41%	176,815	38%
Manufacturing	8,588	45%	30,171	36%
Others	37,916	43%	77,808	20%
Individuals				
Loans for the purchase of other residential properties	55,171,177	100%	46,146,603	100%
Credit card advances	13,473,213	-	13,389,982	-
Others	27,869,597	80%	19,966,071	72%
	99,706,800		83,055,916	
Netting adjustment on account of foreign currency margin products	(648,082)		(677,395)	
Total loans and advances to customers for use in Hong Kong	99,058,718		82,378,521	
Loans and advances to customers for use outside Hong Kong	11,346	-	10,506	-
Trade finance	-	-	453,289	3%
Total	99,070,064		82,842,316	

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

(d) 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:

	2019	*2018*
Overdue loans and advances to customers		
Individuals		
Loans for the purchase of other residential properties	-	1,062
Credit card advances	40,934	33,330
Others	3,772	1,802
Impaired loans and advances to customers		
Individuals		
Loans for the purchase of other residential properties	3,147	1,062
Credit card advances	40,934	33,330
Others	22,551	23,142
Collective impairment allowances		
Individuals		
Loans for the purchase of other residential properties	1,400	1,805
Credit card advances	289,198	261,125
Others	60,391	33,318
Specific impairment allowances		
Individuals		
Credit card advances	36,319	27,425
Others	2,218	2,430
New impairment allowances		
Individuals		
Loans for the purchase of other residential properties	(405)	236
Credit card advances	237,717	177,720
Others	63,703	41,145
Advances written off during the year		
Individuals		
Credit card advances	200,750	191,239
Others	36,842	48,785

(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.

(e) Overdue and rescheduled assets

(i) Overdue loans and advances to customers

	2019		2018	
	Amount	*% of loans and advances to customers*	*Amount*	*% of loans and advances to customers*
Loans and advances to customers which have been overdue for periods of:				
- 6 months or less but over 3 months	44,706	0.05%	35,889	0.04%
- 1 year or less but over 6 months	-	0.00%	305	0.00%
- over 1 year	-	0.00%	-	0.00%
	44,706	0.05%	36,194	0.04%
Current market value of collateral held against the covered portion of overdue loans and advances to customers	-		15,711	
Covered portion of overdue loans and advances to customers	-		1,062	
Uncovered portion of overdue loans and advances to customers	44,706		35,132	
	44,706		36,194	
Specific impairment allowances	32,381		24,256	

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.

(e) Overdue and rescheduled assets (continued)

(ii) Rescheduled loans and advances to customers

	2019		*2018*	
	Amount	*% of loans and advances to customers*	*Amount*	*% of loans and advances to customers*
Rescheduled loans and advances to customers	21,926	0.02%	21,340	0.03%

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 (e)(i).

(iii) Impaired loans and advances to customers

	2019		*2018*	
	Amount	*% of loans and advances to customers*	*Amount*	*% of loans and advances to customers*
Overdue loans and advances to customers	44,706	0.05%	36,194	0.04%
Rescheduled loans and advances to customers	21,926	0.02%	21,340	0.03%
Impaired loans and advances to customers	66,632	0.07%	57,534	0.07%

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 2019 and 31 December 2018, nor were there any rescheduled advances to banks and other financial institutions.

(f) Repossessed assets

	2019	*2018*
Repossessed assets	2,843	-

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.

(g) 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.

		2019	
	On-balance sheet exposures	*Off-balance sheet exposures*	*Total exposures*
Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	-	-	-
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	2,937,726	930,157	3,867,883
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	789	-	789
Other counterparties where the exposures are considered by the reporting institution to be non-bank China exposure	18,627	-	18,627
Total	2,957,142	930,157	3,887,299
Total assets after provision	233,475,293		
On-balance sheet exposures as percentage of total assets	1.27%		

(g) Mainland Activities (continued)

	2018		
	On-balance sheet exposures	*Off-balance sheet exposures*	*Total exposures*
Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	47,745	-	47,745
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	2,421,623	896,986	3,318,609
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	696	-	696
Other counterparties where the exposures are considered by the reporting institution to be non-bank China exposure	22,724	50	22,774
Total	2,492,788	897,036	3,389,824
Total assets after provision	224,604,503		
On-balance sheet exposures as percentage of total assets	1.11%		

(h) 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:

	2019	*2018*
Classes of exposures:		
Sovereign	-	764
Public sector entity	12,728	13,684
Bank	1,859,325	1,841,264
Corporate	2,718	39,957
Cash items	220	136
Regulatory retail	1,226,014	1,219,686
Residential mortgage loans	1,936,292	1,625,050
Other exposures which are not past due	476,510	375,459
Past due	6,285	6,197
Total capital requirements for on-balance sheet exposures	5,520,092	5,122,197
Trade-related contingencies	-	-
Forward forward deposits placed	1	20
Other commitments	16,002	25,063
Exchange rate contracts	5,827	3,354
Total capital requirements for off-balance sheet exposures	21,830	28,437

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:

	2019	*2018*
Capital charge for operational risk	912,568	854,369

(h) 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 the exposures of Sovereign, Public sector entity ("PSE"), Multilateral development bank, Bank, Securities firm, Corporate and Collective investment scheme ("CIS"). 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:

		After credit risk mitigation		*Risk-weighted amounts*				
2019	*Total exposures*	*Rated*	*Unrated*	*Rated*	*Unrated*	*Total risk-weighted amounts*	*Total exposure covered by recognized collateral*	*Total exposure covered by recognized guarantees or credit derivative contracts*
On-balance sheet								
Sovereign	74,263,419	74,278,118	-	-	-	-	-	-
Public sector entity	-	795,479	-	159,096	-	159,096	-	-
Multilateral development bank	-	-		-		-	-	-
Bank	52,659,797	52,278,568	381,229	23,142,380	99,188	23,241,568	-	-
Corporate	37,842	-	33,981	-	33,981	33,981	-	3,861
Cash items	653,466	-	653,466	-	2,747	2,747	-	
Regulatory retail	30,255,144	-	20,433,572	-	15,325,179	15,325,179	9,810,110	11,462
Residential mortgage loans	57,923,208	-	57,128,353	-	24,203,655	24,203,655	-	794,855
Other exposures which are not past due	14,911,530	-	5,956,376	-	5,956,376	5,956,376	8,955,154	-
Past due	53,423	-	53,423		78,559	78,559	-	-
Off-balance sheet								
Forward forward deposits placed	39	-	39	-	8	8	-	-
Commitments that are unconditionally cancellable without prior notice	79,437,146	-	79,437,146	-	-	-	-	-
Other commitments	1,334,479	-	1,334,479	-	200,022	200,022	-	-
Exchange rate contracts	220,294	98,639	62,276	42,657	30,179	72,836	59,379	-

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

(iii) Credit risk exposures (continued)

2018	*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*			
On-balance sheet								
Sovereign	84,411,387	84,439,943	-	9,549	-	9,549	-	-
Public sector entity	-	855,225	-	171,045	-	171,045	-	-
Multilateral development bank	149,592	149,592		-		-	-	-
Bank	50,043,491	49,684,423	359,068	22,913,577	102,218	23,015,795	-	-
Corporate	510,396	-	499,464	-	499,464	499,464	-	10,932
Cash items	547,679	-	547,679	-	1,694	1,694	-	
Regulatory retail	27,456,585	-	20,328,106	-	15,246,080	15,246,080	7,093,784	34,695
Residential mortgage loans	49,057,894	-	48,219,740	-	20,313,119	20,313,119	-	838,154
Other exposures which are not past due	9,711,327	-	4,693,235	-	4,693,235	4,693,235	5,018,092	-
Past due	52,021	-	52,021	-	77,464	77,464	-	-
Off-balance sheet								
Trade-related contingencies	-	-	-	-	-	-	-	-
Forward forward deposits placed	1,240	-	1,240	-	248	248	-	-
Commitments that are unconditionally cancellable without prior notice	76,287,648	-	76,287,648	-	-	-	-	-
Other commitments	2,555,756	-	2,555,756	-	313,293	313,293	-	-
Exchange rate contracts	189,012	94,192	20,968	31,433	10,495	41,928	73,852	-

The amount of credit exposures that are risk-weighted at 1250% is nil (2018: nil).

(h) 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.

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

	Banks and other financial institutions	*Others*	*Total*
2019			
Notional amounts	9,720,422	4,009,412	13,729,834
Credit equivalent amounts	154,211	66,083	220,294
Risk-weighted amounts	49,194	23,642	72,836
2018			
Notional amounts	31,085,527	3,257,761	34,343,288
Credit equivalent amounts	130,988	58,024	189,012
Risk-weighted amounts	33,359	8,569	41,928

(h) 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:

	2019	*2018*
Gross total positive fair value	82,996	49,189
Credit equivalent amounts	220,294	189,012
Recognized collateral held:		
- Cash on deposits with the Company	59,379	73,852
Credit equivalents, net of recognized collateral held	160,915	115,160
Risk-weighted amounts	72,836	41,928

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

(h) 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 collateral 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.

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

(h) 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.

	2019	*2018*
Capital charge for:		
Foreign exchange exposure	51,849	47,959

(vii) Equity exposures

	2019	*2018*
Financial assets at fair value through profit and loss	650,000	596,000

The investment in equity securities that do not have a quoted market price in an active market and periodically evaluated for other-than-temporary impairment. Note 1(d) details the accounting practices as well as impairment valuation methodologies, assumptions and practices for the equity investments.

(viii) 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:

2019	USD	RMB
Spot assets	85,472,961	1,128,277
Spot liabilities	(83,157,124)	(2,359,863)
Forward purchases	2,700,478	1,883,329
Forward sales	(4,858,744)	(12,352)
Net long non- structural position	157,571	639,391

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

(viii) Currency risk (continued)

2018	USD	RMB
Spot assets	85,078,755	1,393,024
Spot liabilities	(79,518,382)	(1,939,543)
Forward purchases	996,804	1,145,735
Forward sales	(6,471,580)	(18,922)
Net long non- structural position	85,597	580,294

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 additon, 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 Audit Committee, Risk Management Committee and Nomination and Remuneration Committee.

(i) Audit Committee

The Audit Committee meets regularly with the senior management of financial control, internal audit and compliance and the external auditors to 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 Independent Non-executive Directors of the Company.

(ii) 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, conduct, operational risks and franchise and reputational risk, on a regular basis. The Committee is also mandated by the Board to oversee the operation of the Credit Committee, Asset and Liability Committee and Information Technology Management Forum.

The Committee comprises all Independent Non-Executive Directors of the Company.

(i) Corporate governance (continued)

<u>Asset and Liability Committee</u>
The Asset and Liability Committee provides oversight on the Company's market and liquidity risks, transfer pricing and balance sheet optimization across businesses, evaluation of capital adequacy and oversight of local regulatory constraints of the Company.

<u>Credit Committee</u>
The Committee is a regular forum for establishing sound business strategies, articulate and monitor adherence to risk appetite and risk limits, and identify, measure, manage and control risk. The Committee also ensures the retail lending activities are conducted in accordance to the requirements stipulated in Citi policies and regulatory requirements. The Committee also ensures that the credit risk arising from the wholesale assets is managed in accordance with relevant Citi policies.

<u>Information Technology Management Forum</u>
The Information Technology Management Forum is established to assume the overall information technology governance responsibilities covering all technology related matters including the establishment of a strategic information technology plan and provide guidance to the execution of the strategic plan.

(iii) Nomination and Remuneration Committee

The Nomination and Remuneration Committee, reconstituted from the Nomination Committee since February 2018, is established to identify individuals suitably qualified to become Board members, make recommendations on appointment or re-appointment and succession planning for directors and senior management, review the Board's structure, size and composition, review the efficiency and effectiveness of the functioning of the Board, oversee senior management's implementation of the remuneration system to ensure compliance with applicable regulatory requirements and to assess whether the Company's overall remuneration policy is in line with its risk appetite, risk culture and long-term interests. The Committee is also the dedicated board-level committee in advising the Board in discharging its responsibilities for the Company's culture-related matters. The Committee comprises all Independent Non-executive Directors of the Company.