Citicorp International Limited

Financial Information Disclosure Statement

2014 Annual

CITICORP INTERNATIONAL LIMITED

We enclose herewith the Annual Disclosure Statements for the year ended December 31, 2014, which are prepared under the Banking (Disclosure) Rules made pursuant to Section 60A of the Banking Ordinance.

By Order of the Board

Mok Siu Hung Paulus

Director & Chief Executive

April 30, 2015

CITICORP INTERNATIONAL LIMITED

The directors are pleased to announce the audited financial results (together with the unaudited supplementary information) of Citicorp International Limited (the "Company") for the year ended December 31, 2014.

2014 Full Year Results

For the year under review, profit before taxation of the Company decreased by 15% from HK$957 million to HK$811 million.

Net fee and commission income increased by 2% to HK$2,418 million.

Total operating income increased by 3% to HK$2,445 million. Also, operating expense increased by 14% to HK$1,634 million.

STATEMENT OF COMPREHENSIVE INCOME

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

	Note	*2014*	*2013*
Interest income	2	29,797	22,298
Interest expense	3	(3,611)	(2,916)
Net interest income		**26,186**	**19,382**
Net fee and commission income	4	2,417,981	2,364,903
Net trading income	5	683	537
Operating income		**2,444,850**	**2,384,822**
- Staff costs		(1,084,159)	(1,023,364)
- Premises & equipment expenses		(111,869)	(105,486)
- Depreciation expenses		(687)	(626)
- Other operating expenses		(437,084)	(298,432)
Operating expenses		**(1,633,799)**	**(1,427,908)**
Profit before taxation		**811,051**	**956,914**
Taxation	6	(133,812)	(141,080)
Profit after tax		**677,239**	**815,834**
Other comprehensive income for the year, net of tax			
Items that will not be classified to profit or loss:			
Remeasurement of net defined benefit liabilities		(6,421)	(30,368)
Items that may be subsequently reclassified to profit or loss:			
Changes in fair value of available-for-sale financial assets		2,429	1,738
Total comprehensive income for the year		673,247	787,204

BALANCE SHEET

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

	Note	*2014*	*2013*
Assets			
Balances with banks	7	5,679,362	4,925,992
Available-for-sale financial assets	8	1,192,999	1,474,080
Fixed assets	9	965	1,550
Deferred tax assets		32,494	36,935
Current taxation		37,320	166,712
Other assets		354,592	132,345
		7,297,732	6,737,614
Liabilities			
Deposits and balances of banks		1,332,971	1,491,141
Defined benefit liabilities		15,354	14,821
Other liabilities		608,048	557,889
		1,956,373	2,063,851
Equity			
Share capital		187,556	187,556
Reserves	10	5,153,803	4,486,207
		5,341,359	4,673,763
		7,297,732	6,737,614

CASH FLOW STATEMENT

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

	Note	*2014*	*2013*
Operating activities			
Profit before taxation		811,051	956,914
Adjustments for:			
Net interest income		(26,186)	(19,382)
Depreciation		687	626
Remeasurement of net defined benefit liabilities		(6,421)	(36,369)
Share-based payment transactions		(350)	50,551
		778,781	952,340
(Increase)/decrease in operating assets:			
Other assets		(223,846)	896,906
Defined benefit assets		-	16,260
		(223,846)	913,166
(Decrease)/increase in operating liabilities:			
Other liabilities		50,271	(310,616)
Defined benefit liabilities		533	14,821
Deposits and balances of banks		(158,170)	1,038,369
		(107,366)	742,574
Cash generated from operations		447,569	2,608,080
Tax paid			
- Hong Kong Profits Tax paid		(4,275)	(402,983)
- Overseas tax paid		(1,005)	(1,795)
Net cash generated from operating activities		442,289	2,203,302

CASH FLOW STATEMENT (CONTINUED)

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

	Note	*2014*	*2013*
Investing activities			
Proceeds from redemption of available-for-sale securities		283,510	-
Payment for purchase of available-for-sale financial assets with original maturity beyond three months		-	(1,085,573)
Payment for purchase of fixed assets		(102)	(776)
Interest received		31,396	21,672
Net cash generated from/(used in) investing activities		314,804	(1,064,677)
Financing activities			
Dividend paid		-	(775,250)
Interest paid		(3,723)	(2,540)
Net cash used in financing activities		(3,723)	(777,790)
Net increase in cash and cash equivalents		753,370	360,835
Cash and cash equivalents at 1 January	11	4,925,992	4,565,157
Cash and cash equivalents at 31 December	11	5,679,362	4,925,992

NOTES TO THE FINANCIAL STATEMENTS

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

1 Significant accounting policies

(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. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap.32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap.622), "Accounts and Audit". A summary of the significant accounting policies adopted by the Company is set out 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:

- financial instruments designated at fair value through profit or loss and available for sale financial assets (see note 1(c)(ii)); and
- obligations under share-based incentive plans (see note 1(g)(iii)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, 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 judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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.

1 Significant accounting policies (continued)

(c) Financial instruments

(i) Initial recognition

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

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

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

(ii) Categorization

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but excludes those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

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

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

- The assets and liabilities are managed, evaluated and reported internally on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liabilities contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract and the separation of the embedded derivative(s) from the financial instrument is no prohibited.

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

1 Significant accounting policies (continued)

(c) Financial instruments (continued)

Available-for-sale financial assets

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

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

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (see note 1(e)).

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

Loans and receivables

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

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

Other financial liabilities

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

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the balance sheet 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 balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

1 Significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Derecognition

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

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

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

(v) Offsetting

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

(d) Fixed assets

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(e)). Depreciation is calculated to write off the cost of items of furniture and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives of 3 to 10 years.

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

Where parts of an item of 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.

1 Significant accounting policies (continued)

(e) Impairment of assets

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

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

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

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

1 Significant accounting policies (continued)

(e) Impairment of assets (continued)

(i) Available-for-sale financial assets

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

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

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

(ii) Loans and receivables

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

(iii) Other assets

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

- fixed assets; and
- other assets.

1 Significant accounting policies (continued)

(e) Impairment of assets (continued)

(iii) Other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

(f) Cash equivalents

Cash equivalents are demand deposits with banks 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.

1 Significant accounting policies (continued)

(g) 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.

(ii) Defined benefit retirement plans

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 end of the reporting period 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)).

1 Significant accounting policies (continued)

(g) Employee benefits (continued)

(iii) 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.

(iv) 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.

(h) 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 directly 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 balance sheet date, and any adjustment to tax payable in respect of previous years.

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

1 Significant accounting policies (continued)

(h) Income tax (continued)

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

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

The carrying amount of a deferred tax asset is reviewed at each balance sheet 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 realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 Significant accounting policies (continued)

(i) 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.

(j) Revenue recognition

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

(i) Fee and commission income

Fee and commission income arises from financial services provided by the Company including merchant and investment banking services and banking support services. Fee and commission income is recognized when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognized as income in the accounting period in which the costs or risk is incurred and is accounted for as interest income.

Origination or commitment fees received/paid by the Company which result in the creation or acquisition of a financial asset are deferred and recognized as an adjustment to the effective interest rate. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

1 Significant accounting policies (continued)

(j) Revenue recognition (continue)

(ii) Interest income

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

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

Interest income and expenses on all financial assets and liabilities that are classified as trading or designated at fair value through profit or loss are considered to be incidental and are therefore presented together with all other changes in fair value arising from the portfolio. Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from liabilities, together with interest income and expenses, foreign exchange differences and dividend income attributable to those financial instruments.

(k) 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 balance sheet 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 measured.

All exchange differences relating to monetary items are presented as gains less losses from dealing in foreign currencies in the profit or loss.

1 Significant accounting policies (continued)

(l) 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).

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

2 Interest income

	2014	*2013*
Interest income on placements with banks	9,706	10,100
Interest income from available-for-sale financial assets	20,091	12,198
	29,797	22,298

3 Interest expense

	2014	*2013*
Interest expense on deposits and balances of banks	3,611	2,916

4 Net fee and commission income

	2014	*2013*
Corporate finance fees	-	5,271
Agency and servicing fees	58,761	50,515
Banking support services fees	2,359,220	2,309,117
	2,417,981	2,364,903

5 Net trading income

	2014	*2013*
Net gain from dealing in foreign exchange	704	489
Net (loss)/gain from trading securities	(21)	48
	683	537

6 Taxation

	2014	*2013*
Current Tax - Hong Kong Profits Tax	134,577	159,325
Current Tax - Overseas	1,005	1,795
Deferred tax	(1,770)	(20,040)
	133,812	141,080

The provision for Hong Kong Profits Tax for 2014 is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the year.

7 Balances with banks

	2014	*2013*
Balances with banks	1,037,963	762,164
Placement with banks maturing within one month	4,641,399	4,163,828
	5,679,362	4,925,992

8 Available-for-sale financial assets

	2014	*2013*
Debt securities, unlisted	1,192,999	1,474,080
Issued by:		
- Corporates	1,192,999	1,474,080

9 Fixed assets

	2014 Furniture and equipment	*2013 Furniture and equipment*
Cost:		
At January 1	5,714	5,526
Additions	102	776
Write-offs	(185)	(588)
At December 31	5,631	5,714
Accumulated depreciation:		
At January 1	4,164	4,126
Charge for the year	687	626
Write-offs	(185)	(588)
At December 31	4,666	4,164
Net book value	965	1,550

10 Reserves

	Retained earnings	*Capital Reserves*	*Available- for -sales fair value reserve*	*Total*
At January 1, 2013	4,353,830	153,860	1,827	4,509,517
Profit for the year	815,834	-	-	815,834
Other comprehensive income	(30,368)	-	1,738	(28,630)
Share-based payment transactions, net of tax	-	(35,264)	-	(35,264)
Dividend declared and paid in respect of the current year	(775,250)	-	-	(775,250)
At December 31, 2013	4,364,046	118,596	3,565	4,486,207
At January 1, 2014	4,364,046	118,596	3,565	4,486,207
Profit for the year	677,239	-	-	677,239
Other comprehensive income	(6,421)	-	2,429	(3,992)
Share-based payment transactions, net of tax	-	(5,651)	-	(5,651)
Dividend declared and paid in respect of the current year	-	-	-	-
At December 31, 2014	5,034,864	112,945	5,994	5,153,803

10 Reserves (continued)

(a) Nature and purpose of reserve

Available-for-sales reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities until the financial assets are derecognized and is dealt with in accordance with the accounting policies in notes 1(c) and 1(e).

Capital reserve

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 note 1(g).

11 Cash and cash equivalents in the cash flow statement

	2014	*2013*
Balances with banks	1,037,963	762,164
Placements with banks with original maturity within 3 months	4,641,399	4,163,828
Cash and cash equivalents in the cash flow statement	5,679,362	4,925,992

12 Financial risk management

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

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

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. The Internal Audit also perform 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.

12 Financial risk management (continued)

(a) Credit risk management

The Company's activities are predominantly with group entities or with institutions with strong credit standing. As such, management does not consider the credit risk for the Company's activities to be significant.

The Company will follow its ultimate holding company's credit policy for credit approval and monitoring processes if and when the Company has credit risk exposure to unrelated parties.

(b) Market risk management

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

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

The Company sets various positions and sensitivity limited 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 Country Market Risk Department 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 Regional Market Risk Management.

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

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

	2014	*2013*
United States dollars		
Spot assets	1,460,082	1,593,575
Spot liabilities	(1,573,993)	(1,695,736)
Net short position	(113,911)	(102,161)

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

12 Financial risk management (continued)

(b) Market risk management (continued)

(ii) Interest rate risk

Interest rate risk is the risk that the Company's position may be adversely affected by a change in market interest rates. Interest rate risk primarily results from the timing differences in the re-pricing of interest-earning assets and interest-bearing liabilities. Structural interest rate risk arises primarily from the deployment of non-interest bearing liabilities, including shareholders' funds.

Interest rate risk is managed by the Treasury Department within limits approved by the Regional Market Risk Management, including interest rate gap limits.

(c) Liquidity risk

The purpose of liquidity management is to ensure sufficient cash flows to meet all financial commitments 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 to make new loans and investments as opportunities arise.

Liquidity is managed on a daily basis by the Treasury Department under the direction of the Country Asset and Liability Committee and in accordance with the Funding and Liquidity plan, which is jointly reviewed and approved by Regional Market Risk Management and the Head Office on an annual basis. The Treasury Department is responsible for ensuring that the Company has adequate liquidity for all operations, and monitoring local and international markets for the adequacy of funding and liquidity.

The Company manages liquidity risk by holding sufficient liquid assets (e.g. cash and short term funds and securities) of appropriate quality to ensure that short term funding requirements are covered within prudent limits.

12 Financial risk management (continued)

(c) Liquidity risk (continued)

Analysis of assets and liabilities by remaining maturity

The following maturity profile is based on the remaining period at the balance sheet date to the contractual maturity date.

2014	*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*
Assets								
Balances with banks	5,679,362	1,037,963	4,641,399	-	-	-	-	-
Available-for-sales financial assets	1,192,999	-	-	-	155,048	1,037,951	-	-
Other assets	354,592	-	310,877	-	-	-	-	43,715
	7,226,953	1,037,963	4,952,276	-	155,048	1,037,951	-	43,715
Liabilities								
Deposits and balances of banks	1,332,971	1,133	141,399	-	155,106	1,035,333	-	-
Other liabilities	608,048	-	404,992	-	-	-	-	203,056
	1,941,019	1,133	546,391	-	155,106	1,035,333	-	203,056
Net asset gap	5,285,934	1,036,830	4,405,885	-	(58)	2,618	-	(159,341)

2013	*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*
Assets								
Balances with banks	4,925,992	762,164	4,163,828	-	-	-	-	-
Available-for-sales financial assets	1,474,080	-	-	-	233,826	1,240,254	-	-
Other assets	132,345	-	105,249	-	-	-	-	27,096
	6,532,417	762,164	4,269,077	-	233,826	1,240,254	-	27,096
Liabilities								
Deposits and balances of banks	1,491,141	185	13,828	-	232,619	1,244,509	-	-
Other liabilities	557,889	-	74,446	-	-	-	-	483,443
	2,049,030	185	88,274	-	232,619	1,244,509	-	483,443
Net asset gap	4,483,387	761,979	4,180,803	-	1,207	(4,255)	-	(456,347)

As the deposits may mature without being withdrawn, the contractual maturity dates do not represent expected dates of future cash flows.

12 Financial risk management (continued)

(d) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. It includes reputation and franchise risk associated with business practices or market conduct that the Company may undertake. Operational risk 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 Regulator’s standards. They are also evaluated, monitored, and managed by its sound governance structure.

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

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

(e) Capital management

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

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

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, except for a change in the calculation methodology in the capital adequacy ratio as mentioned below.

The capital adequacy ratios as at December 31, 2014 and 2013 are computed on the basis as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

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, 2014 and 2013. Further information on the Company’s capital positions can be found in part (a) of the unaudited supplementary information.

13 Fair values of financial instruments

All financial instruments are carried at amounts not materially different from their fair value as at 31 December 2014 and 2013.

14 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.

(a) Transactions with group companies

During the year, the Company entered into transactions with related parties in the ordinary course of its business activities. 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:

	Intermediate holding company and fellow subsidiaries	
	2014	*2013*
Interest income	9,705	10,100
Interest expense	(3,611)	(2,916)
Fee and commission income	2,359,220	2,309,117
Operating expenses	(294,917)	(185,356)
	2,070,397	2,130,945

(b) Amounts outstanding with group companies

Included in the balance sheet captions are balances due from and to fellow subsidiaries:

	Ultimate holding company		*Intermediate holding company and fellow subsidiaries*	
	2014	*2013*	*2014*	*2013*
Balances with banks	-	-	5,679,200	4,925,890
Other assets	-	-	219,032	119,898
Deposits and balances of banks	-	-	1,332,971	1,491,141
Other liabilities	153,459	207,453	116,092	49,019

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

14 Material related party transactions (continued)

(c) Key management personnel remuneration

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

	2014	*2013*
Short-term employee benefits	7,865	8,828
Post-employment benefits	183	234
Share-based payments	1,397	640
	9,445	9,702

Amounts disclosed above include remuneration totaling HK$1,328,131 to certain key management personnel who also provided services to fellow subsidiaries of the Company in 2013. The directors consider that it is not reasonably practicable to quantify the amounts that should be allocated to those fellow subsidiaries for disclosure purposes.

In addition to the amounts disclosed above, remuneration to certain key management personnel totaling HK$56,428,309 (2013: HK$52,559,024) was paid by fellow subsidiaries of the Company in 2014. The directors consider that it is not reasonably practicable to quantify the amounts that should be allocated to the Company for disclosure purposes.

(d) Loans to officers

Pursuant to Section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), the Company did not grant any loans to officers during the year (2013: Nil).

UNAUDITED SUPPLEMENTARY INFORMATION

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

(a) Capital adequacy ratio

The Company's regulatory capital position was as follows:

	At Dec 31, 2014	*At Dec 31, 2013*
Common Equity Tier 1 (CET1) capital ratio	77.48%	61.61%
Tier 1 capital ratio	77.48%	61.61%
Total capital ratio	77.48%	61.61%

The capital adequacy ratios were calculated in accordance with the Banking (Capital) Rules (the "Capital Rules"). In accordance with the Capital Rules, the Company has adopted the "standardized approach" and the "basic indicator approach" for the calculation of the risk-weighted assets for credit risk and operational risk respectively.

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

(b) Liquidity ratio

	2014	*2013*
Average liquidity ratio for the year	8,506.73%	4,899.10%

The average liquidity ratio is computed as the simple average of each calendar month's average ratio and in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

(c) Segmental information

(i) By geographical area

All profits and assets are booked in Hong Kong.

(ii) By class of business

	2014	*2013*
Banking support services fees	2,359,220	2,309,117
Others	58,761	55,786
	2,417,981	2,364,903

Banking support services comprises of front and back office support services provided to other fellow subsidiaries in the ordinary course of business.

(iii) Cross border claims

The cross-border exposures in the table below are prepared in accordance with the HKMA Return of the External Positions Part II: Cross-Border Claims (MA(BS)9A) guidelines. Cross-border claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk. Countries or geographical areas constituting 10% or more of the total cross-border claims are disclosed.

	2014	*2013*
United States of America		
- Banks and other financial institutions	5,922,678	4,952,808
South Korea		
- Banks and other financial institutions	10,474	6,697
- Corporates	1,194,330	1,221,634
	1,204,804	1,228,331

There were no advances to public sector entities as at the above respective reporting dates.

(d) 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 balance sheet date can be analyzed as follows:

	2014	*2013*
Classes of exposures:		
Bank	114,750	102,502
Securities firm	11,667	11,630
Public sector entity	-	2
Corporate	33,241	40,911
Other exposures which are not past due	3,234	13,756
Total capital requirements for on-balance sheet exposures	162,892	168,801

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 basic indicator approach at the balance sheet date is:

	2014	*2013*
Capital charge for operational risk	385,240	433,319

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

(iii) Credit risk exposures

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

An analysis of the credit risk of the Company by class of exposures at the balance sheet date is as follows:

	Total exposures	*Exposures after recognized credit risk mitigation*		*Risk-weighted amounts*		*Total risk-weighted amounts*
		Rated	*Unrated*	*Rated*	*Unrated*	
2014						
On-balance sheet:						
Public sector entity	136	291,530	-	145,833	-	145,833
Multilateral Development Bank	103	103	-	-	-	-
Bank	5,888,401	6,401,392	398	1,434,295	80	1,434,375
Securities firm	-	-	-	-	-	-
Corporate	1,220,259	405,957	9,519	405,988	9,519	415,507
Other exposures which are not past due	40,419	-	40,419	-	40,419	40,419
2013						
On-balance sheet:						
Public sector entity	-	290,759	-	145,380	-	145,380
Multilateral Development Bank	213	213	-	-	-	-
Bank	4,997,374	5,560,838	-	1,281,277	-	1,281,277
Securities firm	48	48	-	24	-	24
Corporate	1,482,435	622,452	5,760	505,625	5,760	511,385
Other exposures which are not past due	171,946	-	171,946	-	171,946	171,946

No exposures have been covered by recognized collateral, recognized guarantee or recognized credit derivative contracts.

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

(iv) Market risk

The Company has an exemption under section 22(1) of the Banking (Capital) Rules.

(v) Interest rate exposures

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

	2014		*2013*	
Interest rate rises by 200 basis points:	*Increase in earnings*	*Decrease in earnings*	*Increase in earnings*	*Decrease in earnings*
HKD	93,102	-	81,963	-
USD	-	(4,193)	-	(50)

(e) 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. The control framework of the Company also falls under the Citigroup control requirements. The Directors of the Company are from Citigroup and Board meetings are held as and when necessary. 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.