Citicorp International Limited

Financial Information Disclosure Statement

2018 Annual

CITICORP INTERNATIONAL LIMITED

We enclose herewith the Annual Disclosure Statements for the year ended December 31, 2018, which are prepared under the Banking (Disclosure) Rules made pursuant to Section 60A of the Banking Ordinance.

By Order of the Board

David Russell
Director & Chief Executive
April 30, 2019

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, 2018.

2018 Full Year Results

• Operating income up 19% to HK$ 4,429 million (HK$ 3,715 million for 2017)

• Profit before taxation up 26% to HK$ 2,476 million (HK$ 1,968 million for 2017)

• Profit after taxation up 26% to HK$ 2,070 million (HK$ 1,643 million for 2017)

Statement of profit or loss and othe comprehensive income

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

	Note	*2018*	*2017*
Interest income	3	75,098	31,115
Interest expense	4	-	(147)
Net interest income		**75,098**	**30,968**
Fee and commission income	5	4,354,602	3,682,494
Other (loss)/income	6	(602)	1,094
Operating income		**4,429,098**	**3,714,556**
- Staff costs		(1,246,214)	(1,163,917)
- Premises & equipment expenses		(143,641)	(141,320)
- Depreciation expenses		(104)	(280)
- Other operating expenses		(563,120)	(440,663)
Operating expenses		**(1,953,079)**	**(1,746,180)**
Profit before taxation		**2,476,019**	**1,968,376**
Taxation	7	(405,747)	(325,363)
Profit after tax		**2,070,272**	**1,643,013**
Other comprehensive income for the year, net of tax			
Item that will not be classified to profit or loss:			
- Remeasurement of net defined benefit liabilities		300	-
Total comprehensive income for the year		**2,070,572**	**1,643,013**

Statement of financial position

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

	Note	*2018*	*2017*
Assets			
Balances with banks	8	7,610,531	9,473,896
Plant and equipment	9	222	326
Deferred tax assets		23,290	18,680
Other assets		42,188	1,233,918
		7,676,231	10,726,820
Liabilities			
Deposits and balances of banks		-	54,778
Defined benefit liabilities		11,733	14,391
Current taxation		161,114	133,641
Other liabilities		641,862	1,761,487
		814,709	1,964,297
Equity			
Share capital		187,556	187,556
Reserves	10	6,673,966	8,574,967
		6,861,522	8,762,523
		7,676,231	10,726,820

Cash flow statement

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

	Note	*2018*	*2017*
Operating activities			
Profit before taxation		2,476,019	1,968,376
Adjustments for:			
Net interest income		(75,098)	(30,968)
Depreciation		104	280
Impairment loss		39	-
Remeasurement of net defined benefit liabilities		300	-
Share-based payment transactions		(53,899)	(11,540)
		2,347,465	1,926,148
Decrease / (increase) in operating assets:			
Other assets		1,194,530	(1,135,489)
(Decrease) / increase in operating liabilities:			
Other liabilities		(1,118,193)	1,118,086
Defined benefit liabilities		(2,658)	1,669
Deposits and balances of banks		(54,778)	54,778
		(1,175,629)	1,174,533
Cash generated from operations		2,366,366	1,965,192
Tax paid			
- Hong Kong Profits Tax paid		(377,853)	(134,590)
- Overseas tax paid		(1,137)	(813)
Net cash generated from operating activities		1,987,376	1,829,789

Cash flow statement (continued)

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

	Note	*2018*	*2017*
Investing activities			
Payment for purchase of fixed assets		-	(186)
Interest received		72,298	29,158
Net cash generated from investing activities		72,298	28,972
Financing activities			
Dividend paid		(3,923,000)	-
Interest paid		-	(147)
Net cash used in financing activities		(3,923,000)	(147)
Net (decrease)/increase in cash and cash equivalents		(1,863,326)	1,858,614
Cash and cash equivalents at 1 January	11	9,473,896	7,615,282
Cash and cash equivalents at 31 December	11	7,610,570	9,473,896

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. 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:

- 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 initially recognises financial assets and financial liabilities at fair value through profit or loss ("FVTPL") on the date it becomes a party to the contractual provisions of the instrument. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the date which they are originated.

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

(A) Financial assets and liabilities – policy applicable from 1 January 2018

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.

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.

1 Significant accounting policies (continued)

(c) Financial instruments (continued)

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.

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;
– 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 fair value through other comprehensive income ("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).

Financial liabilities

The Company classifies its financial liabilities as measured at amortised cost.

(B) Policy applicable prior to 1 January 2018

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 amortised cost using the effective interest method, less impairment losses, if any (see note 1(c)(v)).

Financial liabilities

Financial liabilities are measured at amortised cost using the effective interest method.

1 Significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Derecognition

A financial asset is derecognised 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 derecognised when the obligation specified in the contract is discharged, cancelled or expires.

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

(iv) 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 recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(v) Credit losses and impairment of assets

(A) Policy applicable from 1 January 2018

The Company recognises loss allowances for Expected Credit Loss (ECL) on financial assets measured at amortised cost.

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.

1 Significant accounting policies (continued)

(c) Financial instruments (continued)

Measurement of ECLs

ECLs 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 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 being more than 90 days past due; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

(B) Policy applicable prior to 1 January 2018

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

1 Significant accounting policies (continued)

(c) Financial instruments (continued)

- significant financial difficulty of the borrower;
- 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 reorganisation;
- 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 recognised in respect of loans and receivables, which are measured at amortised 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 recognised in the profit or loss.

(d) Plant and equipment

Plant and equipment 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 plant and equipment 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 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:

- plant and equipment; and

- other non-financial assets.

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 fair value less costs to sell 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 recognised in the profit or loss if 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 to sell, 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.

1 Significant accounting policies (continued)

(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.

(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 retirement 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 obligation

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

Income is classified by the Company as revenue when it arises from the sale of goods or the provision of services.

Revenue is recognised when control over a product or service is transferred to the customer, 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) 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 (continued)

(ii) Interest income

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

(A) Policy applicable from 1 January 2018

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.

When calculating the effective interest rate for financial instruments, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not 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.

(B) Policy applicable before 1 January 2018

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.

(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

(1) 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.

(2) 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 (1).
- (vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management services to the Company or the Company's parent.

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

2 Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Company. Of these, the following developments are relevant to the Company's financial statements:

(i) HKFRS 9, Financial instruments
(ii) HKFRS 15, Revenue from contracts with customers
(iii) HK(IFRIC) 22, Foreign currency transactions and advance consideration

The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, Prepayment features with negative compensation which have been adopted at the same time as HKFRS 9.

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Company has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Company has assessed the cumulative effect of initial application at 1 January 2018 and concluded the impact to the Company is insignificant. Therefore, no adjustment to the opening equity at 1 January 2018 has been made and comparative information continues to be reported under HKAS 39.

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

A. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVTPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

2 Changes in accounting policies (continued)

The following table shows the original measurement categories for each class of the Company's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9:

In thousands of HKD	**Original classsification under HKAS 39**	**New classification under HKFRS 9**	**Original carrying amount under HKAS 39**	**New carrying amount under HKFRS 9**
Financial assets				
Balances with banks	Loans and receivables	Amortised cost	9,473,896	9,473,896
Other sassets	Loans and receivables	Amortised cost	1,233,918	1,233,918
Total financial assets			10,707,814	10,707,814

Note:
For an explanation of how the Company classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy note 2(c).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Company did not designate or de-designate any financial asset or financial liability at FVTPL at 1 January 2018.

B. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

Under HKFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. The scope of the HKFRS 9 ECL impairment model includes amortised cost financial assets, debt securities classified as FVOCI, and off balance sheet loan commitments and financial guarantees which were previously provided for under HKAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The Company applies the new ECL model to the following items:

- Financial assets measured at amortised cost (including cash and cash equivalents and other assets)

For further details on the Company's accounting policy for accounting for credit losses, see respective accounting policy note 2(c).

The impact to the Company's allowances for credit losses as at 1 January 2018, due to the adoption of HKFRS 9, is considered to be immaterial to the Company.

C. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:
- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.
- The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Company).
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.
- The Company has assessed and concluded that the differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 is immaterial. Therefore, no differences are recognized in retained earnings and reserves as at 1 January 2018.

2 Changes in accounting policies (continued)

(ii) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

There is no significant impact on the Company's financial statements upon the initial application of HKFRS 15.

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This Interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Company.

3 Interest income

	2018	*2017*
Interest income on placements with banks	75,098	31,115

4 Interest expense

	2018	*2017*
Interest expense on deposits and balances of banks	-	147

5 Fee and commission income

	2018	*2017*
Agency and servicing fees	105,100	97,645
Banking support services fees	4,249,502	3,584,849
	4,354,602	3,682,494

6 Other income

	2018	*2017*
(Loss) / Gain on foreign exchange	(602)	605
Gain from trading securities	-	489
	(602)	1,094

7 Taxation

	2018	*2017*
Current Tax - Hong Kong Profits Tax	405,326	324,582
Current Tax - Overseas	1,137	813
Deferred tax	(716)	(32)
	405,747	325,363

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year.

8 Balances with banks

	2018	*2017*
Balances with banks	1,210,570	2,073,896
Placement with banks maturing within one month	6,400,000	7,400,000
Less: Impairment allowances	(39)	-
	7,610,531	9,473,896

9 Plant and equipment

	2018	*2017*
	Furniture and equipment	*Furniture and equipment*
Cost:		
At January 1	4,800	5,307
Additions	-	186
Write-offs	-	(693)
At December 31	4,800	4,800
Accumulated depreciation:		
At January 1	4,474	4,887
Charge for the year	104	280
Write-offs	-	(693)
At December 31	4,578	4,474
Net book value	222	326

10 Reserves

	Retained earnings	*Capital Reserves*	*Total*
At January 1, 2017	6,855,271	88,227	6,943,498
Profit for the year	1,643,013	-	1,643,013
Other comprehensive income	-	-	-
Share-based payment transactions, net of tax	-	(11,544)	(11,544)
At December 31, 2017	8,498,284	76,683	8,574,967
At January 1, 2018	8,498,284	76,683	8,574,967
Profit for the year	2,070,272	-	2,070,272
Dividend declared in respect of the current year	(3,923,000)		(3,923,000)
Other comprehensive income	300	-	300
Share-based payment transactions, net of tax	-	(48,573)	(48,573)
At December 31, 2018	6,645,856	28,110	6,673,966

10 Reserves (continued)

Nature and purpose of reserve

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)(iii).

11 Cash and cash equivalents in the cash flow statement

	2018	*2017*
Balances with banks	1,210,570	2,073,896
Placements with banks with original maturity within 3 months	6,400,000	7,400,000
Cash and cash equivalents in the cash flow statement	7,610,570	9,473,896

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.

(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.

	2018	*2017*
United States dollars		
Spot assets	133,981	260,491
Spot liabilities	(254,336)	(296,070)
Net short position	(120,355)	(35,579)

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

12 Financial risk management (continued)

(a) 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.

2018	*Total*	*Repayable on demand*	*1 month or less*	*Undated or overdue*
Assets				
Balances with banks	7,610,531	1,210,570	6,399,961	-
Fixed assets	222	-	-	222
Deferred tax assets	23,290	-		23,290
Other assets	42,188	-	4,994	37,194
	7,676,231	1,210,570	6,404,955	60,706
Liabilities				
Defined benefit liabilities	11,733	-	-	11,733
Current taxation	161,114	-	81,253	79,861
Other liabilities	641,862	-	-	641,862
	814,709	-	81,253	733,456
Net asset gap	6,861,522	1,210,570	6,323,702	(672,750)

2017	*Total*	*Repayable on demand*	*1 month or less*	*Undated or overdue*
Assets				
Balances with banks	9,473,896	2,073,896	7,400,000	-
Fixed assets	326	-	-	326
Deferred tax assets	18,680	-		18,680
Other assets	1,233,918	-	1,215,507	18,411
	10,726,820	2,073,896	8,615,507	37,417
Liabilities				
Deposits and balances of banks	54,778	54,778	-	-
Defined benefit liabilities	14,391			14,391
Current taxation	133,641	-	-	133,641
Other liabilities	1,761,487	-	1,206,945	554,542
	1,964,297	54,778	1,206,945	702,574
Net asset gap	8,762,523	2,019,118	7,408,562	(665,157)

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 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 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 otherwise be possible with greater gearing 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, 2018 and 2017 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, 2018 and 2017. Further information on the Company's capital positions can be found in part (a) of the unaudited supplementary information.

13 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:

	Ultimate holding company		*Intermediate holding company*		*Fellow subsidiaries*	
	2018	*2017*	*2018*	*2017*	*2018*	*2017*
Interest income	-	-	75,098	31,115	-	-
Interest expense	-	-	-	(147)	-	-
Fee and commission income	-	5	3,980,717	3,364,657	268,784	220,186
Operating expenses	(203)	-	(243,401)	(163,052)	(151,454)	(99,763)
	(203)	5	3,812,414	3,232,573	117,330	120,423

(b) Amounts outstanding with group companies

Included in the balance sheet captions are balances due from and to group companies:

	Ultimate holding company		*Intermediate holding company*		*Fellow subsidiaries*	
	2018	*2017*	*2018*	*2017*	*2018*	*2017*
Balances with banks	-	-	7,610,509	9,473,787	-	-
Other assets	-	-	1,913	3,349	10,470	1,216,664
Deposits and balances of banks	-	-	-	54,778	-	-
Other liabilities	142,149	115,844	8,719	1,215,426	15,297	5,358

13 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:

	2018	*2017*
Short-term employee benefits	25,739	33,969
Post-employment benefits	389	673
Share-based payments	7,105	6,356
	33,233	40,998

Amounts disclosed above include remuneration totalling $19,577,547 (2017: $23,612,215) 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, remuneration to certain key management personnel totalling $2,213,947 (2017: $2,123,690) 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.

(d) Loans to directors

Pursuant to Section 383(1) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, the Company did not grant any loans to directors during the year (2017: 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, 2018	*At Dec 31, 2017*
Common Equity Tier 1 (CET1) capital ratio	82.17%	109.51%
Tier 1 capital ratio	82.17%	109.51%
Total capital ratio	82.17%	109.51%

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.

Countercyclical Capital Buffer Ratio

	At Dec 31, 2018	*At Dec 31, 2017*
Countercyclical Capital Buffer Ratio	0.95%	0.57%

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

Capital Conservation Buffer Ratio

Under the Banking (Capital) Rules, the capital conservation buffer ratio for calculating the Company's buffer level are 1.875% for 2018 and 1.25% for 2017.

Regulatory capital disclosure can be found in our website http://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 statement of financial position.

(b) Leverage ratio

	At Dec 31, 2018	*At Dec 31, 2017*
Leverage ratio	89.35%	81.66%

The 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 http://www.citibank.com.hk/cil.

(c) Segmental information

(i) By geographical area

All profits and assets are booked in Hong Kong.

(ii) By class of business

	2018	*2017*
Banking support services fees	4,249,502	3,584,849
Others	105,100	97,645
	4,354,602	3,682,494

Banking support services comprises of front and back office support services provided mainly to the intermediate holding company in the ordinary course of business.

(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-statement of financial position 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:

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

	At Dec 31, 2018				
			Non-bank private sector		
	Banks	*Official Sector*	*Non-bank financial institutions*	*Non-financial private sector*	*Total*
Developed countries	113,380	-	3,760	1,110	118,250
of which United States	113,280	-	1,600	170	115,050

	At Dec 31, 2017				
			Non-bank private sector		
	Banks	*Official Sector*	*Non-bank financial institutions*	*Non-financial private sector*	*Total*
Developed countries	249,520	-	1,208,020	750	1,458,290
of which United States	249,225	-	1,206,980	104	1,456,309

(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 statement of financial position date can be analyzed as follows:

	2018	*2017*
Classes of exposures:		
Sovereign	4	4
Bank	122,042	152,088
Securities Firm	344	128
Corporate	1,423	907
Collective Investment Scheme	40	-
Other exposures which are not past due	193	253
Total capital requirements for on-statement of financial position exposures	124,046	153,380

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 statement of financial position date is:

	2018	*2017*
Capital charge for operational risk	541,729	485,361

(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 statement of financial position date is as follows:

	Total exposures	*Exposures after recognized credit risk mitigation*		*Risk-weighted amounts*		*Total risk-weighted amounts*
		Rated	*Unrated*	*Rated*	*Unrated*	
2018						
On-statement of financial position:						
Sovereign	55	55	-	55	-	55
Multinational Development Bank	104	104	-	-	-	-
Bank	7,627,119	7,623,203	3,916	1,524,679	833	1,525,512
Securities Firm	5,170	1,737	3,433	869	3,433	4,302
Corporate	17,614	2,521	15,093	2,695	15,093	17,788
Collective Investment Scheme	503	-	503	-	503	503
Other exposures which are not past due	2,415	-	2,415	-	2,415	2,415
2017						
On-statement of financial position:						
Sovereign	55	55	-	55	-	55
Multinational Development Bank	104	104	-	-	-	-
Bank	9,485,399	9,483,198	2,201	1,898,895	2,201	1,901,096
Securities Firm	1,959	715	1,244	358	1,244	1,602
Corporate	10,521	2,909	7,612	3,721	7,612	11,333
Other exposures which are not past due	3,158	-	3,158	-	3,158	3,158

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:

	2018		*2017*	
Interest rate rises by 200 basis points:	*Increase in earnings*	*Decrease in earnings*	*Increase in earnings*	*Decrease in earnings*
HKD	121,344	-	140,304	-

(e) Corporate governance

The Company is a wholly owned subsidiary of Citigroup Inc. ("Citigroup") 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 Citigroup 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 applicable guidelines in the Supervisory Policy Manual CG-1 "Corporate Governance of Locally Incorporated Authorized Institutions" issued by the HKMA.