



Citicorp International Limited

Pillar 3 Regulatory Disclosures

**For the Year ended
December 31, 2017**

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This document contains Pillar 3 disclosure of the Citicorp International Limited (the "Company") relating to capital adequacy ratios, leverage ratio, risk-weighted assets ("RWA") by risk types and other financial information. The following disclosures are prepared in accordance with the Banking (Disclosure) Rules and disclosure templates issued by the Hong Kong Monetary Authority ("HKMA").

1 Capital adequacy ratios

The capital adequacy ratios were calculated in accordance with the Banking (Capital) Rules issued by the HKMA.

| In thousands of Hong Kong dollar | At December 31, 2017 | At September 30, 2017 |
|---|---------------------------------|----------------------------------|
| Capital | | |
| Common Equity Tier 1 (CET1) | 8,743,843 | 8,388,636 |
| Tier 1 | 8,743,843 | 8,388,636 |
| Total | 8,743,843 | 8,388,636 |
| Total RWA | 7,984,257 | 7,859,015 |
| Capital Adequacy Ratios | | |
| Common Equity Tier 1 (CET1) capital ratio | 109.51% | 106.74% |
| Tier 1 capital ratio | 109.51% | 106.74% |
| Total capital ratio | 109.51% | 106.74% |

2 Leverage ratio

| In thousands of Hong Kong dollar | At December 31, 2017 | At September 30, 2017 |
|---|---------------------------------|----------------------------------|
| Capital and Total exposures | | |
| Tier 1 capital | 8,743,843 | 8,388,636 |
| Total exposures | 10,708,140 | 10,851,901 |
| Leverage Ratio | 81.66% | 77.30% |

The leverage ratio was complied in accordance with the Leverage Ratio Framework issued by the HKMA.

Table OVA: Overview of risk management

Effective risk management is of primary importance to its overall operations. Accordingly, the Company's risk management process has been designed to monitor, evaluate and manage the principal risks it assumes in conducting its activities. Specifically, the activities that the Company engages in, and the risks those activities generate, must be consistent with the Company's mission and value proposition, the key principles that guide it, and risk appetite.

The Risk Governance Framework consists of the policies, procedures, and processes through which the Company identifies, measures, manages, monitors, reports, and controls risks across the firm. Independent Risk Management, in conjunction with other independent control functions, reviews and updates this Risk Governance Framework at least annually and as needed to address any modifications that may be required as a result of any material changes to the firm or its operating environment. The Risk Management Committees (RMC) of the Company and the Board review and consider for approval the Risk Governance Framework at least annually.

RMC is delegated by the Board to establish the risk appetite statement, review on a regular basis and seek approval from the Board. The committee ensures that an adequate risk management framework, including policies and limits, is in place to identify, measure, mitigate and control all material risks that the Company takes during its business activities.

The Company utilizes a Risk Taxonomy that supports firm-wide frameworks including the Risk Governance Framework. The Risk Taxonomy and the Risk Governance Framework include the following risk types: Credit risk, Liquidity Risk, Market / price risk (including interest rate risk), Operational Risk, Compliance risk, Conduct risk, Legal risk and Strategic risk.

Management of risk is a fundamental responsibility of all employees. In order to create clarity around responsibilities, the Company manages its risks through each of its three lines of defense: (i) business management, (ii) independent control functions and (iii) Internal Audit. The three lines of defense collaborate with each other in structured forums and processes to bring various perspectives together and to steer the organization toward outcomes that are in clients' interests, create economic value and are systemically responsible.

First Line of Defense: Business Management

Each of businesses of the Company owns its risks and is responsible for assessing and managing its risks. Each business is also responsible for having controls in place to mitigate key risks, assessing internal controls and promoting a culture of compliance and control. In doing so, a business is required to maintain appropriate staffing and implement appropriate procedures to fulfill its risk governance responsibilities.

Businesses organize and chair many committees and councils that cover risk considerations with participation from independent control functions, including committees or councils that are designed to consider matters related to capital, assets and liabilities, business practices, business risks and controls, mergers and acquisitions, fair lending and incentives.

Second Line of Defense: Independent Control Functions

Independent control functions of the Company set standards by which the businesses manage and oversee risks, including compliance with applicable laws, regulatory requirements, policies and other relevant standards of conduct. Among other responsibilities, the independent control functions provide advice and training to the businesses and establish tools, methodologies, processes, and oversight for controls used by the businesses to foster a culture of compliance and control. The second line of defense provides credible challenge to the first-line units in their assessment and management of risk. Independent control functions of the Company include Independent Risk Management, Independent Compliance Risk Management (ICRM), Anti-Money Laundering (AML), Finance, Legal and Human Resources.

Table OVA: Overview of risk management (continued)

Third Line of Defense: Internal Audit

The role of Internal Audit is to provide independent and timely assurance to the Board, the Audit Committee, senior management, and regulators regarding the effectiveness of governance, risk management, and controls that mitigate current and evolving risks and enhance the control culture within the Company.

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

Stress Testing

Stress-testing involves the use of various techniques to assess a financial institution's potential vulnerability (typically in terms of its profitability, liquidity and capital adequacy) to "stressed" business conditions and thereby plays an important role in the management of risk by banks. It is also a tool commonly employed by supervisors for assessing the risks and vulnerabilities within banking systems.

The Board is ultimately responsible for the Company's stress testing program, while the senior management should be accountable for the implementation, management and oversight of the program. The stress parameters and assumptions should be reviewed regularly by respective material risk managers. The stress test should be performed at least annually. The Board and Senior Management should request ad-hoc stress testing if there are significant changes in the economic, social and political environment, or any material changes in business model/strategies.

Stress scenarios should be designed to evaluate the Company's position under severe but plausible adverse conditions where all material risk should be considered quantitatively or qualitatively. The following areas should be considered when selecting the scenarios:

- Appropriateness of scenarios
- Likelihood of scenarios
- Severity and duration of the parameters and risk drivers
- Intuitive impact of scenarios
- Additional scenarios and parameters

Template OV1: Overview of Risk-Weighted Assets

The following table sets out the RWA by risk types and the corresponding minimum capital requirements (i.e. 8% of RWA), as required by the HKMA.

| In thousands of Hong Kong dollar | | (a) | (b) | (c) |
|----------------------------------|--|-------------------------|--------------------------|------------------------------|
| | | RWA | | Minimum capital requirements |
| | | As at December 31, 2017 | As at September 30, 2017 | As at December 31, 2017 |
| 1 | Credit risk for non-securitization exposures | 1,917,244 | 1,853,952 | 153,380 |
| 2 | Of which STC approach | 1,917,244 | 1,853,952 | 153,380 |
| 19 | Operational risk | 6,067,013 | 6,005,063 | 485,361 |
| 20 | Of which BIA approach | 6,067,013 | 6,005,063 | 485,361 |
| 25 | Total | 7,984,257 | 7,859,015 | 638,741 |

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.

The Company does not have any credit-related derivatives and exposures to CCPs as at December 31, 2017.

Template LII: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

The following table shows the differences between the carrying values as reported in the Company's financial statements following the scope of accounting consolidation and the carrying values under the scope of regulatory consolidation, with a breakdown into regulatory risk categories of every item of the assets and liabilities reported in financial statements based on the scope of accounting consolidation.

At 31 December, 2017:

| | (a) and (b) | (c) | (d) | (e) | (f) | (g) |
|---|---|----------------------------------|---|---|----------------------------------|--|
| | Carrying values as reported in published financial statements and the carrying values under scope of regulatory consolidation | Carrying values of items: | | | | |
| | | subject to credit risk framework | subject to counterparty credit risk framework | subject to the securitization framework | subject to market risk framework | not subject to capital requirements or subject to deduction from capital |
| Assets | | | | | | |
| Cash and balances with banks and other financial institutions | 2,073,896 | 2,073,896 | - | - | - | - |
| Placements with banks and other financial institutions | 7,400,000 | 7,400,000 | - | - | - | - |
| Fixed assets | 326 | 326 | - | - | - | - |
| Deferred tax assets | 18,680 | - | - | - | - | 18,680 |
| Other assets | 1,233,918 | 26,973 | - | - | - | 1,206,945 |
| Total assets | 10,726,820 | 9,501,195 | - | - | - | 1,225,625 |
| Liabilities | | | | | | |
| Deposits and balances from banks and other financial institutions | 54,778 | - | - | - | - | 54,778 |
| Current taxation | 133,641 | - | - | - | - | 133,641 |
| Other liabilities | 1,775,878 | - | - | - | - | 1,775,878 |
| Total liabilities | 1,964,297 | - | - | - | - | 1,964,297 |

In thousands of Hong Kong dollar

Template LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

The following table provides information on the main sources of differences between the carrying values in financial statements and the exposure amounts used for the calculation of regulatory capital in respect of the assets and liabilities based on the scope of regulatory consolidation.

At 31 December, 2017:

| In thousands of Hong Kong dollar | | (a) | (b) | (c) | (d) | (e) |
|----------------------------------|---|-----------|--------------------------|------------------------------------|-----------------------|-----|
| | | Total | Items subject to: | | | |
| | credit risk framework | | securitization framework | counterparty credit risk framework | market risk framework | |
| 1 | Asset carrying value amount under scope of regulatory consolidation (as per template LI1) | 9,501,195 | 9,501,195 | - | - | - |
| 2 | - Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1) | - | - | - | - | - |
| 3 | Total net amount under regulatory scope of consolidation | 9,501,195 | 9,501,195 | - | - | - |
| 4 | Off-balance sheet amounts | | | - | - | - |
| N | Exposure amounts considered for regulatory purposes | 9,501,195 | 9,501,195 | - | - | - |

Template LIA: Explanations of differences between accounting and regulatory exposure amounts

The following provides explanations on the differences observed between accounting carrying values (as defined in template LI1) and amounts considered for regulatory capital purposes (as defined in template LI2).

Differences between the amounts in columns (a) and (b) in template LI1

The Company's carrying values as reported in published financial statements and the carrying values under scope of regulatory consolidation are the same.

The main drivers for the differences between accounting values and amounts considered for regulatory purposes shown in template LI2

There is no difference between accounting values and amounts considered for regulatory purposes shown in template LI2

Valuation of financial instruments

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, the most suitable measure for fair value is the quoted market price. In the absence of organized secondary markets for most financial instruments, and in particular for loans, deposits and unlisted derivatives, direct market prices are not available. The fair value of such instruments was therefore calculated on the basis of well-established valuation techniques using current market parameters. In particular, the fair value is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of the value realizable in a future sale.

All valuation models are validated before they are used as a basis for financial reporting, by qualified personnel independent of the area that created the model. These techniques involve uncertainties and are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experiences and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instruments.

Fair value hierarchy

The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unverified inputs and validated models. Unverified inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unverified inputs or invalidated models.

Table CRA: General information about credit risk

The Board has delegated responsibility to the Hong Kong Risk Management Committee to oversee credit risk arising from businesses and ensure the asset quality, adequate policies, and business activities in accordance with established policies and relevant laws and regulations. The Committee Chair periodically reports to the Board on portfolio performance, statutory limits compliance and significant credit issues.

The credit risk management function at the Company is responsible for:

- Approving business-specific policies and procedures
- Monitoring business risk performance
- Providing ongoing assessment of portfolio credit risk
- Ensuring the appropriate level of cost of credit (loan loss reserve and credit losses)
- Approving product and credit transaction

Given the existing business activities and strategies at the Company, credit risk is considered to be low.

The Company follows the global policies and procedures in relation to credit risk to the extent that they are aligned with local regulatory and statutory requirements. Citi has established processes for calculation, measurement, monitoring and reporting of credit risk by businesses. Local risk management should follow the global policies unless prior approval is obtained from regional / global credit risk management for deviations

Credit risk is subject to the regulatory capital charge under Pillar 1 of Basel III. The standardized approach is used to calculate credit risk weighted assets in Capital Adequacy Ratio which is submitted to the HKMA quarterly.

Template CR1: Credit quality of exposures

The following table provides an overview of credit quality of on- and off-balance exposures as at December 31, 2017.

| In thousands of Hong Kong dollar | | (a) | (b) | (c) | (d) |
|---|-----------------------------|---------------------------|----------------------------|-----------------------------|------------|
| | | Gross carrying amounts of | | Allowances / impairments | Net values |
| | | Defaulted exposures | Non-defaulted exposures | | |
| 1 | Loans | - | - | - | - |
| 2 | Debt securities | - | - | - | - |
| 3 | Off-balance sheet exposures | - | - | - | - |
| 4 | Total | - | - | - | - |

As at reporting date, the Company has no outstanding reportable item in this template.

Template CR2: Changes in defaulted loans and debt securities

The following table provides information on the changes in defaulted loans and debt securities, including any changes in the amount of defaulted exposures, movements between non-defaulted and defaulted exposures, and reductions in the defaulted exposures due to write-offs as at December 31, 2017 and June 30, 2017 respectively.

| In thousands of Hong Kong dollar | | (a) |
|----------------------------------|--|--------|
| | | Amount |
| 1 | Defaulted loans and debt securities at end of the previous reporting period | - |
| 2 | Loans and debt securities that have defaulted since the last reporting period | - |
| 3 | Returned to non-defaulted status | - |
| 4 | Amounts written off | - |
| 5 | Other changes | - |
| 6 | Defaulted loans and debt securities at end of the current reporting period | - |

Table CRB: Additional disclosure related to credit quality of exposures

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 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 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.

As at reporting date, the Company has no impaired, past due or restructured exposures.

Table CRC: Qualitative disclosures related to credit risk mitigation

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

Given the business activities of the Company, there is no collateral received or managed in its normal operation.

Template CR3: Overview of recognized credit risk mitigation

The following table presents the extent of credit risk exposures covered by different types of recognized CRM as at December 31, 2017.

| In thousands of Hong Kong dollar | | (a) | (b1) | (b) | (d) | (f) |
|----------------------------------|--------------------|--------------------------------------|-------------------------|--|--|---|
| | | Exposures unsecured: carrying amount | Exposures to be secured | Exposures secured by recognized collateral | Exposures secured by recognized guarantees | Exposures secured by recognized credit derivative contracts |
| 1 | Loans | - | - | - | - | - |
| 2 | Debt securities | - | - | - | - | - |
| 3 | Total | - | - | - | - | - |
| 4 | Of which defaulted | - | - | - | - | - |

Table CRD: Qualitative disclosures on use of ECAI ratings under STC approach

Credit ratings from Moody's Investors Service and Standard & Poor's Ratings Services are used for the exposures of Sovereign, Public sector entity ("PSE"), Multilateral development bank, Bank, Securities firm, Corporate and Collective investment scheme ("CIS"). The Company follows the process prescribed in Part 4 of the Banking (Capital) Rules to map the ratings to the exposures booked in the Company's banking book.

Template CR4: Credit risk exposures and effects of recognized credit risk mitigation – for STC approach

The following table illustrates the effect of any recognized CRM (including recognized collateral under both comprehensive and simple approaches) on the calculation of capital requirements under STC approach as at December 31, 2017.

| In thousands of Hong Kong dollar | | (a) | (b) | (c) | (d) | (e) | (f) |
|----------------------------------|--|-------------------------------|--------------------------|---------------------------------|--------------------------|---------------------|-------------|
| | | Exposures pre-CCF and pre-CRM | | Exposures post-CCF and post-CRM | | RWA and RWA density | |
| Exposure classes | | On-balance sheet amount | Off-balance sheet amount | On-balance sheet amount | Off-balance sheet amount | RWA | RWA density |
| 1 | Sovereign exposures | 55 | - | 55 | - | 55 | 100% |
| 2 | PSE exposures | - | - | - | - | - | 0% |
| 2a | Of which: domestic PSEs | - | - | - | - | - | 0% |
| 2b | Of which: foreign PSEs | - | - | - | - | - | 0% |
| 3 | Multilateral development bank exposures | 104 | - | 104 | - | - | 0% |
| 4 | Bank exposures | 9,485,399 | - | 9,485,399 | - | 1,901,096 | 20% |
| 5 | Securities firm exposures | 1,959 | - | 1,959 | - | 1,602 | 82% |
| 6 | Corporate exposures | 10,521 | - | 10,521 | - | 11,333 | 108% |
| 7 | CIS exposures | - | - | - | - | - | 0% |
| 8 | Cash items | - | - | - | - | - | 0% |
| 9 | Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis | - | - | - | - | - | 0% |
| 10 | Regulatory retail exposures | - | - | - | - | - | 0% |
| 11 | Residential mortgage loans | - | - | - | - | - | 0% |
| 12 | Other exposures which are not past due exposures | 3,158 | - | 3,158 | - | 3,158 | 100% |
| 13 | Past due exposures | - | - | - | - | - | 0% |
| 14 | Significant exposures to commercial entities | - | - | - | - | - | 0% |
| 15 | Total | 9,501,196 | - | 9,501,196 | - | 1,917,244 | 20% |

Template CR5: Credit risk exposures by asset classes and by risk weights – for STC approach

The following table presents a breakdown of credit risk exposures under STC approach by asset classes and by risk weights as at December 31, 2017.

| In thousands of Hong Kong dollar | | (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (ha) | (i) | (j) |
|----------------------------------|--|---------------------|----------|------------------|----------|--------------|----------|---------------|--------------|----------|----------|--|
| Exposure Class | Risk Weight | 0% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | 250% | Others | Total credit risk exposures amount (post CCF and post CRM) |
| | 1 | Sovereign exposures | | | | | | | 55 | | | |
| 2 | PSE exposures | | | | | | | | | | | - |
| 2a | Of which: domestic PSEs | | | | | | | | | | | - |
| 2b | Of which: foreign PSEs | | | | | | | | | | | - |
| 3 | Multilateral development bank exposures | 104 | | | | | | | | | | 104 |
| 4 | Bank exposures | | | 9,476,090 | | 6,863 | | 2,446 | | | | 9,485,399 |
| 5 | Securities firm exposures | | | | | 715 | | 1,244 | | | | 1,959 |
| 6 | Corporate exposures | | | | | 378 | | 8,141 | 2,002 | | | 10,521 |
| 7 | CIS exposures | | | | | | | | | | | - |
| 8 | Cash items | | | | | | | | | | | - |
| 9 | Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis | | | | | | | | | | | - |
| 10 | Regulatory retail exposures | | | | | | | | | | | - |
| 11 | Residential mortgage loans | | | | | | | | | | | - |
| 12 | Other exposures which are not past due exposures | | | | | | | 3,158 | | | | 3,158 |
| 13 | Past due exposures | | | | | | | | | | | - |
| 14 | Significant exposures to commercial entities | | | | | | | | | | | - |
| 15 | Total | 104 | - | 9,476,090 | - | 7,956 | - | 15,044 | 2,002 | - | - | 9,501,196 |