



# Portfolio Finance Product Factsheet (Investment Plus / Portfolio Power)

This document is prepared by Citibank (Hong Kong) Limited and Citibank, N.A. (organized under the laws of U.S.A. with limited liability) ("the Bank") to give you an overview of Portfolio Finance. This document does not constitute an offer to sell nor is it a solicitation of an offer to enter into a transaction. The information set out in this document is intended for informational purposes only. Prior to entering into a transaction, you should understand the product and its associated risks in order to determine whether the investment is suitable for you in light of your experience, objectives, financial position and other relevant circumstances. You should consult your legal, regulatory, tax, financial and/or accounting advisors to the extent you consider it necessary.

This document seeks only to provide a general introduction to Portfolio Finance. Therefore, the content of this document is not exhaustive and is not intended to cover detailed aspects and/or risk disclosures. This document should be read in conjunction with the *Terms And Conditions For Accounts And Services, Security Memorandum, Letter of Offer and Enhanced Customer Suitability Checklist & Disclosure for Leveraged Products*.

## What is Portfolio Finance

Portfolio Finance is a credit facility secured by your financial assets held with the Bank. It enables you to borrow against a broad range of financial assets, including cash deposits, mutual funds, bonds, stocks and structured products, as collateral. You can use the proceeds of Portfolio Finance to meet liquidity needs or use the loan proceeds to make an investment with or through the Bank. Portfolio Finance consists of two products – **Investment Plus** and **Portfolio Power**.

	Investment Plus	Portfolio Power
Product Overview <sup>i</sup>	A term loan credit facility for eligible investments with the Bank	An overdraft credit line for general purposes
Eligible Collaterals	Cash & equivalents, bonds, structured notes, mutual funds and equities	
Eligibility & Suitability	<ul style="list-style-type: none"> <li>• Citigold Private Client / Citigold Customers</li> <li>• Fulfill the Bank's internal credit assessment</li> <li>• Fulfill the Bank's suitability assessment, which includes:               <ul style="list-style-type: none"> <li>▪ Your investor rating as determined in the investment risk profiling</li> <li>▪ Your knowledge and experience in borrowing against investments</li> </ul> </li> </ul>	
Available Loan Currencies	HKD, USD, AUD, CAD, CHF, EUR, GBP, JPY & NZD	HKD & USD
Application Channel	Branch	
Drawdown Channel	Branch	Mobile / Online Banking and Branch
Fees and Interest Rate	No fees are charged for the application and setup of the credit facility. Interest will only be charged upon drawdown on the utilized amount. Interest to be charged will be the Benchmark Rate plus/minus spread <sup>ii</sup> . Please contact your Relationship Manager for details	
Additional Information	The credit facility is subject to our periodic review whereupon we will re-assess based on our periodic review criteria, as determined by us from time to time. We may renew the credit facility or terminate the credit facility	

<sup>i</sup> There are restrictions on the application of loan proceeds to certain investment transactions (e.g. securities issued by or managed by a non-bank affiliate of Citibank, N.A.), and the Bank may also accept certain investments as collateral only after an investment purchase settlement. Please contact your Relationship Manager for details.

<sup>ii</sup> Benchmark Rate for Investment Plus means (a) For HKD, the HIBOR published by the Hong Kong Association of Banks (or a successor chosen by us); or (b) For USD, EUR, AUD, JPY, GBP, CHF, CAD or NZD (or such other currencies as may be offered by us from time to time), the Secured Facility Base Lending Rate (or a successor chosen by us); or (c) any successor rate, screen or index determined in accordance with this provision. Benchmark Rate for Portfolio Power means (i) the Prime Rate for HKD/USD published by Citigroup Inc. or its affiliates (or a successor chosen by us); or (ii) any successor rate, screen or index determined in accordance with this provision. In the event that the Benchmark Rate becomes negative, it shall be deemed to be 0%.



## How Portfolio Finance Works

### Eligible Collateral and Loan-to-Value Ratio (LTV)

A broad range of financial assets are accepted as collaterals, and each eligible collateral will be assigned with a Loan-to-Value Ratio (LTV).

LTV is the percentage of the market value of an eligible collateral asset used to determine the amount that you can borrow against.

Table 1 below illustrates the various types of eligible collaterals and their respective maximum LTVs. Please note that all LTVs are indicative. The Bank may, at its discretion, change the LTV assigned to each eligible collateral, taking into account of various factors, including but not limited to the concentration and liquidity of the overall collateral portfolio.

Table 1

Collateral Type	Loan-to-Value Ratio <sup>iii</sup>
Cash & Equivalent	Up to 83.3%
Sovereign Bonds	Up to 90.0%
Corporate Bonds	Up to 90.0%
Structured Notes	Up to 85.0%
Mutual Funds & ETFs	Up to 90.0%
Equities	Up to 70.0%

### How Much Can be Borrowed - Total Loanable Limit

Total Loanable Limit is the amount that can be borrowed based on the total eligible collaterals you hold.

The example below in Table 2 assumes you have a well-diversified collateral portfolio of USD 700,000 (equivalent) at market value. Based on the respective LTV of these asset classes, you can borrow up to the Total Loanable Limit of USD 480,000.

If the currency of the loan is different from the currency of the collateral asset, a cross-currency haircut will be applied to the LTV of the asset. Please refer to Appendix 1 for more details.

Table 2

Collateral	Market Value (USD)	LTV <sup>iv</sup>	Total Loanable Limit (USD)
Mutual Fund (Balanced)	250,000	80%	200,000
Structured Notes	250,000	60%	150,000
Corporate Bond	100,000	70%	70,000
US Listed Equity	100,000	60%	60,000
<b>Total</b>	<b>700,000</b>	<b>69%</b>	<b>480,000</b>

<sup>iii</sup> The Loan-to-Value Ratio shown above is for reference only.

<sup>iv</sup> The LTV illustrated is for reference only. Cross-currency haircut on LTV is not applicable in this example.

## Effect of Portfolio Finance on Investments

Portfolio Finance, when used as part of an investment strategy, provides you with additional capital to seize investment opportunities as they happen. As with any leverage, Portfolio Finance may have the effect of increasing losses or increasing returns, which would increase in proportion to the level of leverage utilized. Any event that adversely affects the value of an investment will be magnified to the extent that such an investment is leveraged and could result in greater losses than if the investment were not leveraged. The following example in *Table 3* illustrates how Portfolio Finance can potentially impact your investment returns.

Assume you have an initial capital of USD 100,000. You plan to invest your capital into an investment portfolio, which has an expected yield of 5% p.a. The loan interest rate is 3% p.a. This investment portfolio has an LTV of 50%.

You can see from *Table 3* that the effect of price movements (gains and losses) in investments are amplified with Portfolio Finance.

*Table 3*

(Amounts in USD)	Scenario 1: Market value of investments falls by 10%		Scenario 2: No change in market value of investments		Scenario 3: Market value of investments rises by 10%	
	Without Leverage	With Leverage	Without Leverage	With Leverage	Without Leverage	With Leverage
Initial capital	100,000	100,000	100,000	100,000	100,000	100,000
Loan amount	0	100,000	0	100,000	0	100,000
Investment amount <i>(Initial Capital + Loan Amount)</i>	100,000	200,000	100,000	200,000	100,000	200,000
Coupon or dividend received	5,000	10,000	5,000	10,000	5,000	10,000
Change in market value of investments	(10,000)	(20,000)	0	0	10,000	20,000
Investment return <i>(coupon or dividend Received + change in market value of investments)</i>	(5,000)	(10,000)	5,000	10,000	15,000	30,000
Loan interest rate (% p.a.)	N/A	3%	N/A	3%	N/A	3%
Loan interest	0	3,000	0	3,000	0	3,000
Net return <i>(Investment return – loan interest)</i>	(5,000)	(13,000)	5,000	7,000	15,000	27,000
Net return over initial capital (%)	-5%	-13%	5%	7%	15%	27%

Portfolio Finance has amplified the loss from -5% to -13% in this case

Portfolio Finance has amplified the gain from 15% to 27% in this case

## Impact of Interest Rate and Foreign Exchange Movements

Similar to price movements, changes in interest rate would impact the net return on investments. A rise in interest rate will adversely affect the net returns of the investments undertaken with leverage.

When your collateral asset currency and your loan currency are different, movements in the collateral-loan currency pair will impact your investments return. An appreciation of the loan currency against the collateral currency would adversely affect the net returns of the investments undertaken with leverage. Please refer to *Table 5* in the following section for a detailed illustration of the implication of foreign exchange movements.

## Security Margin & Margin Call Process

As Portfolio Finance is a credit facility secured by your financial assets held with the Bank, it is important to understand the Margin Call and Force Sell mechanism employed by the Bank. It is your duty to monitor the erosion of the Initial Equity Position, Margin Call and Force Sell events as mentioned below.

### Initial Equity Position & Margin Erosion

While Initial Equity Position refers to the initial capital that supports your leverage portfolio, Margin Erosion is the percentage shortfall of your Initial Equity Position. Margin Erosion is calculated as follows.

$\text{Margin Erosion} = \frac{\text{Initial Equity Position} - \text{Current Margin}}{\text{Initial Equity Position}}$	<p><i>Where:</i>  <i>Initial Equity Position = (loan outstanding ÷ LTV) – loan outstanding</i>  <i>Current Margin = new collateral market value – loan outstanding</i></p>
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Margin Call and Force Sell events are triggered based on the extent of Margin Erosion of your total eligible collateral portfolio. Please refer to *Table 4* and *Table 5* below for detailed illustrations of Pre-Margin Call, Margin Call & Force Sell scenarios.

### Margin Call & Force Sell

	Margin Call	Force Sell
Margin Erosion Range <sup>v</sup>	≥ 25% and < 50%	≥ 50%
Remediation Timeframe <sup>v</sup>	7 calendar days	1 business day
Remedial Actions <sup>vi</sup>	<ul style="list-style-type: none"> <li>• Deposit additional sums and/or financial assets acceptable to the Bank to enlarge the collateral pool; and/or</li> <li>• Repay part of the loan outstanding</li> </ul>	

<sup>v</sup> The details set out are for general guidance only and subject to change by the Bank.

<sup>vi</sup> If the remedial actions are not performed within the respective timeframe as required, or if the situation is deemed necessary by the Bank, we may, but are not obliged to, notify you before exercising the rights of liquidation and/or setoff.

## Illustration of Pre-Margin Call, Margin Call & Force Sell Scenario

Table 4 assumes you have a diversified leveraged investment portfolio with an initial collateral market value of USD 100,000, which has an LTV of 60%. You have an outstanding loan amount of USD 60,000.

Table 4

Amount in USD	Scenario 1: Portfolio Value Falls by 4%	Scenario 2: Portfolio Value Falls by 10%	Scenario 3: Portfolio Value Falls by 20%
Loan outstanding	60,000	60,000	60,000
LTV of the investment portfolio	60%	60%	60%
Initial Equity Position <i>(Loan outstanding ÷ LTV) – loan outstanding</i>	40,000	40,000	40,000
Change in market value	-4%	-10%	-20%
New collateral market value <i>Initial collateral market value × (1 + change in market value)</i>	96,000	90,000	80,000
Current Margin <i>New collateral market value – loan outstanding</i>	36,000	30,000	20,000
<b>Margin Erosion %</b> <i>(Initial Equity Position - Current Margin) ÷ Initial Equity Position</i>	<b>10%</b>	<b>25%</b>	<b>50%</b>
<b>Margin Call Status</b>	<b>Pre-Margin Call</b>	<b>Margin Call</b>	<b>Force Sell</b>

Table 5 shows scenarios where the collateral asset currency and loan currency are different, and where appreciation of the loan currency against the collateral currency would lead to Pre-Margin Call, Margin Call and Force Sell scenarios.

Table 5 assumes you draw a loan of EUR 175,000 to invest into a diversified investment portfolio with a collateral market value of USD 300,000 at EUR/USD = 1.20, which has an LTV of 70%.

Table 5

	Scenario 1: EUR/USD appreciates by 5%	Scenario 2: EUR/USD appreciates by 10%	Scenario 3: EUR/USD appreciates by 20%
Collateral market value (USD)	300,000	300,000	300,000
Loan outstanding (EUR)	175,000	175,000	175,000
LTV of the investment portfolio	70%	70%	70%
Change in exchange rate (EUR/USD)	+5%	+10%	+20%
New exchange rate (EUR/USD) <i>1.20 × (1 + change in exchange rate)</i>	1.26	1.32	1.44
Loan outstanding (USD)	220,500	231,000	252,000
Initial Equity Position (USD) <i>[Loan outstanding (USD) ÷ LTV] – loan outstanding (USD)</i>	94,500	99,000	108,000
Current Margin (USD) <i>Collateral market value – loan outstanding (USD)</i>	79,500	69,000	48,000
<b>Margin Erosion %</b> <i>(Initial Equity Position - Current Margin) ÷ Initial Equity Position</i>	<b>16%</b>	<b>30%</b>	<b>56%</b>
<b>Margin Call Status</b>	<b>Pre-Margin Call</b>	<b>Margin Call</b>	<b>Force Sell</b>



## **Means to Monitor Portfolio Finance Details**

Please note, it is your duty to monitor the erosion of the Initial Equity Position, Margin Call and Force Sell events. You can review and monitor your Portfolio Finance details, such as Total Loanable Limit, Loan Outstanding and Margin Erosion status, via the following channels:

- Citi Mobile® App
- Citibank Online Banking

You may also refer to the Bank statement or contact your Relationship Manager for further details.

## **Understanding the Key Risks**

The following risk disclosures are not an exhaustive description of all the risks involved, but a general statement of the risks commonly associated with Portfolio Finance.

### **Leverage Risk**

The use of leverage amplifies the return (both positive and negative) of an investment portfolio, meaning a small price and/or foreign exchange movement will have a multiplying effect on your corresponding gains or losses. You may be called upon at short notice to deposit additional margin funds. If the required funds are not provided within the prescribed time, their positions may be liquidated. In the event that the market deteriorates rapidly beyond the Margin call level and reaches the Force Sell level, Citibank ("the Bank") reserves the right to close out all or part of the outstanding positions without notice and without any Margin calls. You will remain liable for any resulting deficit in their accounts. This brief statement cannot, of course, disclose all the risks and other significant aspects of trading in currencies/derivatives or any other leveraged investment products. You should therefore carefully study the market before you trade.

### **Price Risk**

Leveraging on your existing margin deposits and/or securities such as stocks, mutual funds, bonds, notes, Premium Accounts is highly speculative and risky and is subject to the risk of market fluctuation. The value of your holdings may be reduced as a result. The use of leverage means that relatively small price movements will have a multiplying effect on your corresponding gains or losses. You should have sufficient net worth to be able to assume the risks and bear the potential losses of leveraged investments.

### **Interest Rate Risk**

The loan interest rates may vary during the period of investment or utilization of the Portfolio Finance facility, and therefore the interest costs for the client may also vary. This may affect the net return on investments or overdraft credit limit.

### **Liquidity Risk**

During adverse market conditions, you may not be able to liquidate all or any part of your holdings<sup>vii</sup>.

### **Credit Risk**

The approved line amount granted is dependent on the Loan-to-Value Ratio allowed for each margin deposit and/or security, in which the Loan-to-Value Ratio is subject to change by the Bank without notice, and is based on the full discretion of the Bank's assessment of risk factors. The Loan-to-Value Ratio for securities like bonds and notes is

<sup>vii</sup> The borrower represents and warrants to the Bank and undertakes at all times it will not redeem, sell, transfer, switch, convert or otherwise dispose of any of the Mortgaged Portfolio or any interest therein or attempt or agree so to do.



impacted by negative/downgrade ratings. Any security that falls below the Bank's designated minimum rating by Moody and S&P may result in the security not being marginable and a Margin call or Force sell could be triggered as a consequence.

### **Currency Risk**

If the currency of the loan is different from the currency of the underlying investments and/or deposits, foreign exchange rate movements may affect the value of the loan, underlying investments, and/or deposits, which may result in Margin call and/or Force sell. You should understand and agree that the requested Loan Currency is made at your sole discretion without solicitation from the staff of the Bank, and loan currency switching is not applicable for Investment Plus and that you still want to request for the term loan drawdown with Investment Plus. Relatively small movements in the exchange rate will have a multiplying effect on your corresponding gain or loss and may result in the possibility of Margin call and Force-sell.

### **Pre-Margin Call**

For Investment Plus, in the event that the erosion of the Initial Equity Position (that is, loan outstanding divided by weighted Loan-to-Value Ratio, then minus the loan outstanding at the relevant time) falls within the region of  $0\% < x < 25\%$ , the Bank shall have the absolute discretion to exercise the right:

- to decline the execution of any type of transaction of the customer in respect of any eligible investments and/or eligible deposits; or,
- to apply any settlement proceeds to restore the Initial Equity Position to below 0% or such lowest possible percentages.

### **Margin Call**

The implications of Margin call levels for the leveraged facility and positions may be liquidated at the discretion of the Bank if a Margin call is not complied within the stipulated time period. The Margin call levels are also subject to change by the Bank without prior notice and the Bank has no obligation to notify you of the aforesaid event, therefore it is your duty to monitor the same. For Investment Plus, Margin call trigger is set at the level where the Initial Equity Position erodes for 25% or above. If a Margin call is triggered, you need to top up the shortfall margin within 7 calendar days.

### **Force Sell**

The implications of Force Sell levels for the leveraged facility, including all or any part of your margin deposits and/or securities may be realized for settling all or any part of their loan outstanding without any notice. In the event that the market deteriorates rapidly beyond the Margin Call level and reaches the Force sell level, the Bank reserves the right to close out all or part of the outstanding positions without notice and without any Margin Calls. The Force Sell levels are also subject to change by the Bank without prior notice. For Investment Plus, Force Sell trigger is set at the level where the Initial Equity Position (that is, loan outstanding divided by weighted Loan-to-Value Ratio, then minus the loan outstanding at the relevant time) of your portfolio erodes for 50% or above.



## Is Portfolio Finance Suitable for You

Portfolio Finance could be suitable for you if:

- You are seeking additional funding flexibility to pursue additional investment opportunities or to enhance the overall returns of your investments.
- You understand and are willing to take on the risks associated with Portfolio Finance, for general investment purposes (e.g. liquidity needs) or to enhance your potential investment returns.
- You are able to maintain a diversified portfolio as pledged collaterals. You also understand the Margin Call and Force Sell mechanism employed by the Bank and are able to pledge more cash or eligible investment assets into the account as collateral or sell down your investment holdings within a short period of time upon receiving a Margin Call or Force Sell.

You should obtain the advice of a licensed or an exempt financial advisor before making a commitment to entering into a Portfolio Finance transaction. In the event that you choose not to seek advice from a financial advisor, you should carefully consider whether Portfolio Finance is suitable for you in light of your investment objectives, financial means and risk profile.

If you would like to find out more about Portfolio Finance, please contact your Relationship Manager. Your Relationship Manager will discuss the product mechanics and product risks with you, and assess your risk profile, financial means and investment objectives.

**To borrow or not to borrow? Borrow only if you can repay!**





## Appendix 1 – Cross Currency Haircut

Cross Currency Haircut is an additional 10% haircut in LTV (subject to changes by the Bank), which applies to non-cash collaterals when the collateral currency has a mismatch with the loan currency.

For instance, you pledged a HKD denominated mutual fund as the eligible collateral, which has an LTV of 75%. If you, have a loan denominated in HKD, then the LTV of this fund will remain as 75%. However, if your loan is denominated in USD and it is fully supported by HKD denominated mutual fund, a 10% Cross Currency Haircut will therefore be applied to the fund, which results in an effective LTV of 65% only.

Please refer to *Table 6* for illustration.

*Table 6 (HKD denominated mutual fund pledged as collateral)*

<b>Scenario 1: HKD Loan</b>				
Collateral Amount	LTV	Cross Currency Haircut	Effective LTV	Total Loanable Limit
HKD 1,000,000	75%	0%	75%	HKD 750,000
<b>Scenario 2: USD Loan</b>				
Collateral Amount	LTV	Cross Currency Haircut	Effective LTV	Total Loanable Limit
HKD 1,000,000	75%	10%	65%	HKD 650,000

## Disclaimer

1. This material is for information purpose only and does not intend to constitute any offer or solicitation or advice to buy or sell any investment products. The investment decision is yours but you should not invest in "Investment Plus" unless the intermediary who sells it to you has explained to you that the product is suitable for you having regard to your financial situation, investment experience and investment objectives.
2. The facility is subject to the approval of Citibank (Hong Kong) Limited and/or Citibank, N.A. (as the case may be) (the "Bank") terms and conditions.
3. Acceptance of deposits and investments as collaterals is subject to the approval of the Bank.
4. Investments are not bank deposits and are not protected under any deposit protection scheme or authority.
5. Investors should have sufficient net worth to be able to assume the risks and bear the potential losses of investing in "Investment Plus".
6. Leveraged transactions carry a high degree of risk. Investors may therefore wish to seek independent advice before making a commitment to enter into a position of "Investment Plus". In the event that investors choose not to seek independent advice, you should consider carefully whether "Investment Plus" is suitable in the light of your own investment objectives, financial position and risk profile. For more information on the collateralized investment products, investors should also read the relevant terms and conditions carefully.
7. Investors should not rely on the content of this material / website alone to make investment decisions. You should also read other relevant documents for details including the risk factors. If you have any inquiries, please seek independent professional advice prior to subscription.
8. Past performance is not indicative of future performance.
9. Investors' investments are subject to the insolvency and credit risk of Citibank (Hong Kong) Limited and/ or Citibank, N.A. (as the case may be). There is no assurance of protection against a default by the Bank in respect of payment obligation. In case of insolvency of the Bank, you may lose your entire investment irrespective of the performance of the market or segment in which you invested and the terms of the investment.
10. Investment products are not available for US persons and might only be applicable to limited jurisdictions.
11. The facility is subject to our annual review whereupon we will re-assess based on our annual review criteria (as determined by us from time to time) which may include, but are not limited to: your (a) credit history, (b) bankruptcy check, (c) net worth and (d) customer segment (Citigold or Citigold Private Client). You may be required to provide additional information or documentary proof upon request. We may renew the facility (with the same or different facility Limit and on the same or different terms) or terminate the facility.
12. The Bank reserves the rights to liquidate any or all of the eligible deposit or collateral held with the Bank and/or set off any credit balance in any of your accounts (or your joint accounts with other person(s)) against any outstanding balances and terminate Investment Plus and Portfolio Power services.
13. The Bank reserves the right of final decision upon disputes.
14. Should there be any discrepancy between the English and Chinese versions of this page, the English version shall prevail.