KPMG

Citibank (Hong Kong) Limited

花旗銀行 (香港) 有限公司

31 December 2021

Directors' Report

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2021.

Principal place of business

Citibank (Hong Kong) Limited ("the Company") is a licensed bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

Principal activities

The principal activities of the Company are the provision of retail banking, credit cards, consumer credit related financial services and wealth management solutions.

The Company is a licensed bank under the Banking Ordinance and a Registered Institution registered with the Securities and Futures Commission in Hong Kong under the Hong Kong Securities and Futures Ordinance. The Company has also received the Insurance Agency License under the Insurance Ordinance from the Insurance Authority on 15 December 2021.

Share capital

Details of the movements in share capital of the Company during the year are set out in note 25 to the financial statements.

Dividend

The directors do not recommend the payment of an interim dividend (2020: HK$1,410,720,700) and a final dividend (2020: HK$Nil) in respect of the year ended 31 December 2021.

Directors

The directors during the financial year and up to the date of this report were:

Richard Ho Yan Ki
Angel Ng Yin Yee
Lawrence Lam Chi Kong
Raymond Yung Hin Man
Lawrence Li Koon Hong
Paulus Mok Siu Hung
Douglas Li
Josephine Lee Kwai Chong
Po Wai Kwong (appointed on 15 July 2021)
Danny Liu Lai Fong (resigned on 31 July 2021)

Directors (continued)

In accordance with clause 102 of the Company's Articles of Association, all of the present directors retire from the Board and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Indemnity of directors

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout this year.

Directors' interest in transactions, arrangements or contracts

No transaction, arrangement or contract of significance to which the Company, or any of its holding companies or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Directors' interests in shares

The Company's ultimate holding company, Citigroup Inc., operates stock option and stock award plans enabling eligible employees, including directors of the Company, to acquire shares of the common stock in Citigroup Inc. Certain directors of the Company in office during the year have been granted awards over shares of the common stock in Citigroup Inc. pursuant to the above stock award plan. During the year, the following directors acquired shares of the common stock in Citigroup Inc. pursuant to the above stock award plan:

Angel Ng Yin Yee
Paulus Mok Siu Hung
Lawrence Lam Chi Kong
Josephine Lee Kwai Chong
Lawrence Li Koon Hong

Apart from the foregoing, at no time during the year was the Company, any of its holding companies or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Compliance with the Banking (Disclosure) Rules

The Banking (Disclosure) Rules set out the minimum standards for public disclosure which authorised institutions must make in respect of the financial performance, financial position and capital adequacy. The Company's financial statements and the unaudited supplementary information on pages 89 to 108 for the financial year ended 31 December 2021 comply fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting or by way of a written resolution passed by the member of the Company in lieu of the Annual General Meeting.

By order of the Board

Lawrence Lam
Hong Kong,

21 APR 2022

KPMG

Independent auditor's report to the member of Citibank (Hong Kong) Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of Citibank (Hong Kong) Limited ("the Company") set out on pages 7 to 88, which comprise the statement of financial position as at 31 December 2021, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report to the member of Citibank (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

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Independent auditor's report to the member of Citibank (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the financial statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21 APR 2022

Statement of profit or loss and other comprehensive income for the year ended 31 December 2021

(Expressed in thousands of Hong Kong dollar)

	Note	*2021* $'000	*2020* $'000
Interest income calculated using effective interest method	3(a)	3,278,987	3,945,484
Other interest income	3(b)	21,844	282,276
Interest income		3,300,831	4,227,760
Interest expense	3(c)	(675,899)	(1,168,982)
Net interest income		2,624,932	3,058,778
Fee and commission income	4	3,642,353	3,440,480
Fee and commission expense		(155,821)	(106,161)
Net fee and commission income		3,486,532	3,334,319
Net trading income	5	468,568	701,183
Net profit from sale of financial assets at fair value through other comprehensive income		-	1,029
Other operating income	6	37,818	16,468
		506,386	718,680
Operating income		6,617,850	7,111,777
Operating expenses	7	(4,835,855)	(4,290,356)
Operating income before impairment losses		1,781,995	2,821,421
Impairment losses	9	(102,144)	(207,656)
Operating profit		1,679,851	2,613,765
Gain/(loss) on disposal of property, plant and equipment		305,466	(4,836)
Profit before taxation		1,985,317	2,608,929
Income tax	10(a)	(308,627)	(396,806)
Profit for the year		1,676,690	2,212,123

Statement of profit or loss and other comprehensive income for the year ended 31 December 2021 (continued)

(Expressed in thousands of Hong Kong dollar)

	Note	*2021* $'000	*2020* $'000
Other comprehensive income for the year			
Item that will not be classified to profit or loss:			
- Remeasurement of defined benefit plan		(6,123)	(2,913)
Items that may be reclassified subsequently to profit or loss:			
- Changes in fair value of financial assets through other comprehensive income	26	(31,341)	17,809
- Net profit on sale of financial assets at fair value through other comprehensive income	26	-	(1,029)
Other comprehensive income for the year, net of tax		(37,464)	13,867
Total comprehensive income for the year		1,639,226	2,225,990

The notes on pages 15 to 88 form part of these financial statements.

Statement of financial position at 31 December 2021

(Expressed in thousands of Hong Kong dollar)

	Note	*2021* $'000	*2020* $'000
Assets			
Cash and balances with banks, central banks and other financial institutions	12	12,569,987	9,409,863
Placements with banks and other financial institutions	13	14,726,914	13,626,667
Loans and advances	14(a)	163,183,853	151,732,931
Financial assets at fair value through profit or loss	15	70,178,185	72,478,139
Financial assets at fair value through other comprehensive income	16	44,065,706	38,819,529
Financial assets at amortised cost	17	3,898,275	3,875,900
Property, plant and equipment	18	417,912	660,797
Intangible assets	19	34,217	33,324
Current tax assets	10(c)	89,284	-
Deferred tax assets	10(d)	46,898	66,757
Other assets	20	3,035,390	4,374,865
TOTAL ASSETS		312,246,621	295,078,772
Liabilities			
Deposits and balances from banks and other financial institutions	21	46,429,581	49,731,929
Deposits from customers	22	235,727,127	215,542,715
Trading financial liabilities	23	36,853	10,425
Current tax liabilities	10(c)	-	48,786
Other liabilities	24	4,763,301	6,096,149
TOTAL LIABILITIES		286,956,862	271,430,004

Statement of financial position at 31 December 2021 (continued)

(Expressed in thousands of Hong Kong dollar)

	Note	*2021* $'000	*2020* $'000
Equity			
Share capital	25	7,348,440	7,348,440
Reserves	26	17,941,319	16,300,328
TOTAL EQUITY		25,289,759	23,648,768
TOTAL EQUITY AND LIABILITIES		312,246,621	295,078,772

Approved and authorised for issue by the Board of Directors on 21 APR 2022

Lawrence Lam   Lawrence Li   ) Directors

The notes on pages 15 to 88 form part of these financial statements.

Statement of changes in equity for the year ended 31 December 2021

(Expressed in thousands of Hong Kong dollar)

	Note	Share capital $'000	Capital reserves $'000	Fair value reserve $'000	Retained profits $'000	Total $'000
Balance at 1 January 2020		7,348,440	(10,809)	(6,327)	15,504,203	22,835,507
Changes in equity for 2020:						
Profit for the year		-	-	-	2,212,123	2,212,123
Other comprehensive income		-	-	16,780	(2,913)	13,867
Total comprehensive income for the year		-	-	16,780	2,209,210	2,225,990
Equity-settled share-based transactions		-	(2,008)	-	-	(2,008)
Dividend declared and paid in respect of the current year	11	-	-	-	(1,410,721)	(1,410,721)
Balance at 31 December 2020 and 1 January 2021		7,348,440	(12,817)	10,453	16,302,692	23,648,768
Changes in equity for 2021:						
Profit for the year		-	-	-	1,676,690	1,676,690
Other comprehensive income		-	-	(31,341)	(6,123)	(37,464)
Total comprehensive income for the year		-	-	(31,341)	1,670,567	1,639,226
Equity-settled share-based transactions		-	1,765	-	-	1,765
Dividend declared and paid in respect of the current year	11	-	-	-	-	-
Balance at 31 December 2021		7,348,440	(11,052)	(20,888)	17,973,259	25,289,759

The notes on pages 15 to 88 form part of these financial statements.

Cash flow statement for the year ended 31 December 2021

(Expressed in thousands of Hong Kong dollar)

	Note	2021 $'000	2020 $'000
Operating activities			
Profit before taxation		1,985,317	2,608,929
Adjustments for:			
Interest received on financial assets at amortised cost		(72,206)	(8,618)
Interest received on financial assets at fair value through other comprehensive income		(40,548)	(313,877)
Dividends received		(7,230)	(4,697)
Depreciation		234,581	249,755
Amortisation of intangible assets		29,107	30,312
Impairment losses		102,144	207,656
Net profit from sale of financial assets at fair value through other comprehensive income		-	(1,029)
Equity-settled share-based payment expense		3,191	3,134
(Gain)/loss on disposal of property, plant and equipment		(305,466)	4,836
Write-off of construction in progress		691	10,509
		1,929,581	2,786,910
(Increase)/decrease in operating assets			
Financial assets at fair value through profit or loss		(28,966,089)	(7,741,668)
Cash and balances with banks, central banks and other financial institutions with original maturity beyond three months		29,829	(1,262,889)
Loans and advances to customers		(11,553,066)	(20,880,423)
Placements with banks and other financial institutions with original maturity beyond three months		(1,046,707)	(4,451,594)
Financial assets at amortised cost		(22,375)	-
Other assets		1,339,475	(1,288,452)
		(40,218,933)	(35,625,026)

Cash flow statement for the year ended 31 December 2021 (continued)

(Expressed in thousands of Hong Kong dollar)

	Note	*2021* $'000	*2020* $'000
Increase/(decrease) in operating liabilities			
Trading financial liabilities		26,428	(25,775)
Deposits from customers		20,184,412	40,783,910
Deposits from banks and other financial institutions		(2,740,806)	19,428,128
Other liabilities		(1,493,636)	1,709,754
		15,976,398	61,896,017
Cash (used in)/generated from operations		(22,312,954)	29,057,901
Income tax paid			
- Hong Kong Profits Tax paid		(419,971)	(872,999)
- Overseas tax paid		(2,531)	(2,639)
Net cash (used in)/generated from operating activities		(22,735,456)	28,182,263
Investing activities			
Proceeds from sale of financial assets at fair value through other comprehensive income with original maturity beyond three months		38,819,529	24,101,161
Payment for purchase of financial assets at fair value through other comprehensive income with original maturity beyond three months		(44,103,300)	(38,799,539)
Payment for purchase of property, plant and equipment		(34,755)	(21,297)
Payment for purchase of intangible assets		(30,000)	(14,309)
Interest received on financial assets at fair value through other comprehensive income		112,754	322,495
Dividends received		7,230	4,697
Payment for purchase of financial assets at amortised cost		-	(3,875,900)
Net proceeds from disposal of other properties and equipment		702,230	-
Net cash used in investing activities		(4,526,312)	(18,282,692)

Cash flow statement
for the year ended 31 December 2021 (continued)
(Expressed in thousands of Hong Kong dollar)

	Note	2021 $'000	2020 $'000
Financing activities			
Dividends paid to equity shareholder of the Company	11	-	(1,410,721)
Interest element of lease rentals paid		(5,798)	(8,143)
Capital element of lease rentals paid		(193,442)	(202,191)
Net cash used in financing activities		(199,240)	(1,621,055)
Net (decrease)/increase in cash and cash equivalents		(27,461,008)	8,278,516
Cash and cash equivalents at 1 January		45,971,236	37,692,720
Cash and cash equivalents at 31 December	27	18,510,228	45,971,236
Cash flows from operating activities include:			
Interest received		3,311,489	4,209,818
Interest paid		(702,200)	(1,292,249)

The notes on pages 15 to 88 form part of these financial statements.

Notes to the financial statements

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

1 Significant accounting policies

Citibank (Hong Kong) Limited (the "Company") is a licensed bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. Significant accounting policies adopted by the Company are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair values as explained in the accounting policies set out below:

- obligations under share-based incentive plans (see note 1(h)(iv)); and

- financial instruments classified as trading, measured at fair value through profit or loss and measured at fair value through other comprehensive income (see note 1(d)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

1 Significant accounting policies (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 35.

(c) Intangible assets

Intangible assets include premium paid on acquisition of customer relationships, acquired computer software licences and capitalised development costs of computer software programmes. Expenditure on development of computer software programmes is capitalised if the programmes are technologically and commercially feasible and the Company has the intention and sufficient resources to complete the development. The expenditure capitalised includes the direct labour, costs of materials, and an appropriate proportion of overheads. Intangible assets are stated at cost less accumulated amortisation and impairment losses (see note 1(f)).

Amortisation of customer relationships is charged to the profit or loss based on the pattern in which the future economic benefits on the related deposits are likely to accrue to the Company. Amortisation of other intangible assets with finite useful lives is charged to the profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

- acquired computer software licences	1 - 3 years
- capitalised development costs of computer software programme	5 - 10 years
- exclusivity right	4 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

1 Significant accounting policies (continued)

(d) Financial instruments

(i) Initial recognition

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

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

(ii) Classification

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

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

All other financial assets are classified as measured at FVTPL.

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

1 Significant accounting policies (continued)

Business model assessment

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

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

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

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

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

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

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

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

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

1 Significant accounting policies (continued)

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

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

Reclassifications

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

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

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

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

1 Significant accounting policies (continued)

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

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

Financial liabilities

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

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the statement of financial position date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the statement of financial position date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the statement of financial position date.

(iv) 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 first-in, first-out method to determine realised gains and losses to be recognised in profit or loss on derecognition.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1 Significant accounting policies (continued)

(vi) Embedded derivatives

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

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

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

(vii) Credit losses and impairment of assets

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

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

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

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

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

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

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

1 Significant accounting policies (continued)

Measurement of ECLs

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

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

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Credit-impaired financial assets

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

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

- significant financial difficulty of the borrower or issuer;

- a breach of contract such as a default or past due event;

- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

- the disappearance of an active market for a security because of financial difficulties.

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

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

- loan commitments: generally, as a provision;

- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

1 Significant accounting policies (continued)

Write-off

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

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

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

(e) Property, plant and equipment

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

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Buildings held for own use carried at cost	50 years
- Plant, machinery and other assets	3 -10 years
- Installations	3 -10 years

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss on the date of retirement or disposal.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) Impairment of non-financial assets

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

- property, plant and equipment; and

- intangible assets.

1 Significant accounting policies (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Calculation of recoverable amount

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

Recognition of impairment losses

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

Reversals of impairment losses

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

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

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, balances with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

1 Significant accounting policies (continued)

(h) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

The Company's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised 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 recognised 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 recognised 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 recognised. Net interest expense/(income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/(asset). The discount rate is the yield at the statement of financial position date on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/(asset)). The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Company can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

1 Significant accounting policies (continued)

(iv) Share-based payments

The Company participates in a number of Citigroup Inc. ("Citigroup") share-based incentive plans under which Citigroup grants shares to the Company's employees. Pursuant to a separate Stock Plans Affiliate Participation Agreement ("SPAPA"), the Company reimburses Citigroup for the fair value of the share-based incentive awards delivered to the Company's employees under these plans. The Company accounts for these plans as equity-settled plans, with separate accounting for its associated obligations to make payments to Citigroup. The Company recognises 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 recognised in equity.

(i) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

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

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for the Company.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax assets and liabilities are not discounted.

1 Significant accounting policies (continued)

The carrying amount of a deferred tax asset is reviewed at each statement of financial position date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. 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 realise 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.

(j) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(k) Revenue recognition

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

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

1 Significant accounting policies (continued)

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

(i) Interest income

Effective interest rate

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

- the gross carrying amount of the financial asset; or

- the amortised cost of the financial liability.

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

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

1 Significant accounting policies (continued)

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

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

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

(ii) Membership fee income

Annual card membership fees are deferred and amortised on a straight-line basis over twelve months which represent the membership period.

(iii) Finance charges

Finance charges are mainly derived from interest income on cash advances and other amounts due from cardmembers.

Finance charges on cardmember receivables, excluding cash advances, are recognised from the respective transaction dates, on balances which remain unpaid as at the payment due date, to the extent they are considered recoverable, and at the rates applicable.

Finance charges on cash advance receivables are recognised from the date of the advance, to the extent they are considered recoverable on the principal outstanding and at the rates applicable.

(iv) Commission income

Commission income is recognised on a time-apportioned basis on the assets under management outstanding and at the rate applicable. For the card business, commission income is recognised in the financial statements on the date when the sales transaction is recorded, at which time the income is deemed to be earned.

(v) Service fee income

Service fee income is recognised when services are rendered.

(l) Leased assets

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

1 Significant accounting policies (continued)

(i) As a lessee

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

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

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

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

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

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

The Company presents right-of-use assets in 'Property, plant and equipment' and lease liabilities in 'Other liabilities' in the statement of financial position.

1 Significant accounting policies (continued)

(m) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the statement of financial position date. Exchange gains and losses are recognised in the profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

Exchange differences relating to investments at fair value through profit or loss and derivative financial instruments are included in gains less losses from trading securities or financial instruments measured at fair value through profit or loss. All other exchange differences relating to monetary items are presented as gains less losses from dealing in foreign currencies in the profit or loss.

(n) Related parties

(a) A person, or a close member of that person's family, is related to the Company if that person:

- (i) has control or joint control over the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Company or the Company's parent.

(b) An entity is related to the Company if any of the following conditions applies:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).

1 Significant accounting policies (continued)

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management services to the 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

Other than the Interest Rate Benchmark Reform – Phase 2 (Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16), the Company has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Interest Rate Benchmark Reform – Phase 2 (Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16)

As part of Citigroup Inc., the Company has initially adopted Interest Rate Benchmark Reform – Phase 2 (Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16) from 1 January 2021.

The Phase 2 amendments provide practical relief from certain requirements in IFRS Standards. These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changed as a result of interest rate benchmark reform, then Citigroup updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis;

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, Citigroup first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, Citigroup applied the policies on accounting for modifications to the additional changes.

2 Changes in accounting policies (continued)

Managing interest rate benchmark reform and associated risks

For decades, the London Interbank Offered Rate ("LIBOR") and other rates or indices deemed to be benchmarks have been widely used across financial products and markets globally. These benchmarks have been the subject of ongoing national and international regulatory scrutiny and reform, resulting in regulators generally expecting or requiring banks, including Citigroup, to cease entering into new contracts that reference USD LIBOR as a benchmark by 31 December 2021. The LIBOR administrator ceased publication of non-USD LIBOR and one week and two-month USD LIBOR on a representative basis on 31 December 2021, with plans to cease publication of all other USD LIBOR tenors on 30 June 2023. As a result, Citigroup ceased entering into new contracts referencing USD LIBOR as of 1 January 2022, other than for limited purposes as permitted by regulatory guidance and Citigroup has been in compliance with this expectation.

LIBOR and other benchmarks have been used in a substantial number of the Company's outstanding securities and products, including, among others, derivatives, commercial and residential mortgages, credit cards, and other structured securities. Despite ongoing actions to prepare for the transition away from LIBOR, market participants, including Citigroup, may not be adequately prepared for the uncertainties associated with these benchmarks' discontinuance or, as necessary, be able to successfully modify their outstanding contracts or products which reference these benchmarks. For example, the transition away from and discontinuance of LIBOR or any other benchmark rate presents various uncertainties, operational, legal, reputational or compliance, financial and other risks and challenges to holders of these contracts and products as well as financial markets and institutions, including Citigroup. These include, among others, the pricing, liquidity, value of, return on and market for financial instruments and contracts that reference LIBOR or any other benchmark rate.

Citigroup recognizes that a transition away from and discontinuance of LIBOR, also the replacement of some interbank offered rates (IBORs) presents various risks and challenges that could significantly impact financial markets and market participants, including Citigroup. Accordingly, Citigroup has continued its efforts to identify and manage its interest rate benchmark reform risks. For example, Citigroup continues to closely monitor legislative, regulatory and other developments related to interest rate benchmark reform matters and legislative relief. The International Swaps and Derivatives Association (ISDA) published Interbank Offered Rate (IBOR) Fallbacks Protocol for existing IBOR derivatives transactions, which became effective in January 2021, that provides derivatives market participants with new fallbacks for legacy and new derivatives contracts if both counterparties adhere to the Fallbacks Protocol or engage in bilateral amendments.

In addition, Citigroup has established a LIBOR governance and implementation program focused on identifying and addressing the impact of LIBOR transition on Citigroup's clients, operational capabilities and financial contracts. The program operates globally across Citigroup's businesses and functions and includes active involvement of senior management, oversight by Citigroup's Asset & Liability Committee and reporting to the Risk Management Committee of Citigroup's Board of Directors. As part of the program, Citigroup has continued to implement its LIBOR transition action plans and associated roadmaps under the following key workstreams: program management; transition strategy and risk management; customer management, including internal communications and training, legal/contract management and product management; financial exposures and risk management; regulatory and industry engagement; operations and technology; and finance, risk, tax and treasury.

2 Changes in accounting policies (continued)

During 2021, Citigroup continued to participate in a number of working groups formed by global regulators, including the Alternative Reference Rates Committee (ARRC) convened by the Federal Reserve Board. These working groups promote and advance development of alternative reference rates and seek to identify and address potential challenges from any transition to such rates. Citigroup's action plans and associated roadmaps are intended to be consistent with the timelines recommended by these working groups. This includes the Commodity Futures Trading Commission's SOFR First Initiative, which is designed to promote derivatives trading in SOFR. Citigroup also continued to engage with regulators, financial accounting bodies and others on interest rate benchmark reform matters.

Citigroup's transition efforts include, among other things, reducing its overall exposure to LIBOR, increasing Citigroup's virtual client communication efforts and client transition facilitation, including outreach regarding new industry-led protocols and solutions, and using alternative reference rates in certain newly issued financial instruments and products. Further, Citigroup has also been investing in its systems and infrastructure, as client activity moves away from LIBOR to alternative reference rates.

In 2021, Citigroup has been focused on remediating existing LIBOR contracts for which publication ceased on a representative basis on December 31, 2021. Substantially all of these contracts have been remediated by 31 December 2021, and Citigroup continues to actively engage in and track the remediation of any remaining contracts after 31 December 2021. In addition, a significant majority of the notional amount of Citigroup's derivatives exposures include fallback provisions referencing alternative reference rates as a result of adherence to the (IBOR) Fallbacks Protocol. For LIBOR contracts that have not yet been remediated, Citigroup has also been reviewing the effect of relevant legislative solutions, which are expected to facilitate the transition to replacement rates.

3 Interest income and interest expense

(a) *Interest income calculated using effective interest method*

	2021 $'000	*2020* $'000
Interest income on loans to customers	2,343,321	2,805,816
Interest income on placements with banks and other financial institutions	822,912	817,173
Interest income on financial assets at amortised cost	72,206	8,618
Interest income on financial assets at fair value through other comprehensive income		
- Listed	10,120	6,189
- Unlisted	30,428	307,688
Interest income on financial instruments that are not measured at fair value through profit or loss	3,278,987	3,945,484

Included in the above is interest income accrued on impaired financial assets of $3,051,000 (2020: $3,684,000).

(b) *Other interest income*

	2021 $'000	*2020* $'000
Interest income on financial assets at fair value through profit or loss		
- Listed	471	5,765
- Unlisted	21,373	276,511
	21,844	282,276

(c) *Interest expense*

	2021 $'000	*2020* $'000
Interest expense on deposits from customers	464,378	820,259
Interest expense on deposits from banks and other financial institutions	201,933	340,580
Interest on lease liabilities	5,798	8,143
Negative interest on financial assets at fair value through profit or loss	3,790	-
Interest expense	675,899	1,168,982

4 Fee and commission income

	2021	*2020*
	$'000	$'000
Fee and commission from retail banking	2,015,564	1,813,915
Fee and commission from cards business	744,741	714,434
Service fee from group companies	882,048	912,131
	3,642,353	3,440,480

Above amount entirely represent fee and commission income, other than fees included in determining the effective interest rate, arising from financial assets or financial liabilities that are neither held for trading nor measured at fair value through profit or loss.

5 Net trading income

	2021	*2020*
	$'000	$'000
Net gain from foreign exchange	631,706	652,030
Net (loss)/ gain from financial assets at fair value through profit or loss	(163,138)	49,153
	468,568	701,183

6 Other operating income

	2021	*2020*
	$'000	$'000
Dividend income from unlisted investment	7,230	4,697
Others	30,588	12,800
	37,818	17,497

7 Operating expenses

(a) *Staff costs*

	2021 $'000	2020 $'000
Salaries and other benefits	1,268,961	1,184,950
Amount recognised in respect of defined benefit plan, contributions to defined contribution plan and Mandatory Provident Fund Scheme	51,367	58,550
Amount recognised in respect of equity-settled share-based payments	3,191	3,134
	1,323,519	1,246,634

(b) *Depreciation and amortisation*

	2021 $'000	2020 $'000
Depreciation charge (note 18)		
- Owned property, plant and equipment	46,581	52,262
- Right-of-use assets	188,000	197,493
Amortisation of intangible assets (note 19)	29,107	30,312
	263,688	280,067

(c) *Other operating expenses*

	2021 $'000	2020 $'000
Premises and equipment expenses	56,677	77,167
Marketing expenses	1,057,164	874,627
Intercompany expenses	1,839,186	1,510,166
Auditors' remuneration	3,158	3,168
Others	292,463	298,527
	3,248,648	2,763,655
	4,835,855	4,290,356

8 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2021 $'000	*2020* $'000
Directors' fees	1,760	1,740
Salaries, allowances and benefits in kind	9,899	9,453
Discretionary bonuses	2,679	9,027
Share-based payments	2,603	2,530
Retirement scheme contributions	640	644
	17,581	23,394

9 Impairment losses

	2021 $'000	*2020* $'000
Cash and balances with banks and other financial institutions	926	1,497
Placements with banks and other financial institutions	784	5,578
Loans and advances with banks	1,436	997
Loans and advances with customers	97,807	197,595
Financial assets at fair value through other comprehensive income	297	534
Other assets	894	1,455
	102,144	207,656

10 Taxation

(a) *Taxation in the statement of profit or loss and other comprehensive income represents:*

	2021 $'000	2020 $'000
Current tax - Hong Kong Profits Tax		
Provision for the year	297,322	403,167
Over-provision in respect of prior years	(17,338)	(7,381)
	279,984	395,786
Current tax - Overseas	2,531	2,639
Deferred tax		
Origination and reversal of temporary differences	26,112	(1,619)
	308,627	396,806

The provision for Hong Kong Profits Tax for 2021 is calculated at 16.5% (2020: 16.5%) of the estimated assessable profits for the year.

(b) *Reconciliation between tax expense and accounting profit at applicable tax rate:*

	2021 $'000	2020 $'000
Profit before taxation	1,985,317	2,608,929
Notional tax on profit before taxation, calculated at the rates applicable to Hong Kong Profits Tax	327,577	430,473
Tax effect of non-deductible expenses	38,660	13
Tax effect of non-taxable income	(63,838)	(29,296)
Over-provision in respect of prior years	(17,338)	(7,381)
Others	23,566	2,997
Actual tax expense	308,627	396,806

10 Taxation (continued)

(c) *Income taxation in the statement of financial position represents:*

	2021 $'000	*2020* $'000
Provision for Hong Kong Profits Tax for the year	297,322	403,167
Provisional Profits Tax paid	(386,606)	(354,381)
Tax (recoverable)/payable	(89,284)	48,786

(d) *Deferred tax (assets)/liabilities recognised:*

The components of deferred tax (assets)/liabilities recognised in the statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	*Impairment allowance* $'000	*Depreciation in excess of related depreciation allowances* $'000	*Timing difference on share-based payment transactions* $'000	*Others* $'000	*Total* $'000
At 1 January 2021	(52,563)	(28,173)	331	13,648	(66,757)
Charged/(credited) to reserve	-	-	-	(6,253)	(6,253)
Charged/(credited) to the profit or loss	9,102	17,773	(34)	(729)	26,112
At 31 December 2021	(43,461)	(10,400)	297	6,666	(46,898)
At 1 January 2020	(59,003)	(23,981)	223	14,413	(68,348)
Charged/(credited) to reserve	-	-	-	3,210	3,210
Charged/(credited) to the profit or loss	6,440	(4,192)	108	(3,975)	(1,619)
At 31 December 2020	(52,563)	(28,173)	331	13,648	(66,757)

11 Dividends

Dividends paid to equity shareholders of the Company attributable to the financial year

	2021 $'000	*2020* $'000
Interim dividend declared and paid (2020: $19.198 per ordinary share)	-	1,410,721

12 Cash and balances with banks, central banks and other financial institutions

	2021 $'000	*2020* $'000
Cash in hand	486,465	506,021
Balances with banks and other authorised institutions	3,945,346	2,773,845
Balances with central banks	3,359,319	1,275,750
Balances with other financial institutions	38,703	51,598
Placement with banks and other financial institutions maturing within one month	4,742,135	4,803,704
Less: Impairment allowances		
- Stage 1	(1,981)	(1,055)
- Stage 2	-	-
- Stage 3	-	-
	12,569,987	9,409,863

13 Placements with banks and other financial institutions

	2021 $'000	*2020* $'000
Placements with banks and authorised institutions	-	465,108
Placements with other financial institutions	14,729,236	13,163,097
Less: Impairment allowances		
- Stage 1	(2,322)	(1,538)
- Stage 2	-	-
- Stage 3	-	-
	14,726,914	13,626,667
Maturing		
- between one month and one year	14,726,914	13,626,667

The above amounts are also reflected in note 33(a) where they relate to transactions with related parties in the ordinary course of its banking business.

14 Loans and advances

(a) Loans and advances less impairment

	2021 $'000	2020 $'000
Gross loans and advances to customers	118,050,853	101,016,647
Less: Impairment allowances		
- Stage 1	(148,415)	(177,082)
- Stage 2	(114,984)	(141,482)
- Stage 3	(27,092)	(39,822)
Net loans and advances to customers	117,760,362	100,658,261
Gross loans and advances to banks	45,430,651	51,080,394
Less: Impairment allowances		
- Stage 1	(7,160)	(5,724)
- Stage 2	-	-
- Stage 3	-	-
Net loans and advances to banks	45,423,491	51,074,570
Total	163,183,853	151,732,931

14 Loans and advances (continued)

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

	2021 $'000	*2020* $'000
Loans and advances to customers for use in Hong Kong		
Industrial, commercial and financial		
- Property investment	2,394,784	2,716,231
- Wholesale and retail trade	3,325	24,652
- Manufacturing	2,143	3,784
- Others	4,000	15,348
Individuals		
- Loans for the purchase of other residential properties	76,496,019	62,791,623
- Credit card advances	12,619,584	12,320,965
- Others	26,869,155	23,549,253
	118,389,010	101,421,856
Netting adjustment on account of foreign currency margin products	(341,996)	(408,530)
Total loans and advances to customers for use in Hong Kong	118,047,014	101,013,326
Loans and advances to customers for use outside Hong Kong	3,839	3,321
Total	118,050,853	101,016,647

The above economic sector analysis is based on the categories and definitions used by the Hong Kong Monetary Authority ("HKMA").

After taking into account the transfer of risk, there were no exposures to a single country outside Hong Kong exceeding 10% of the aggregate gross amount of loans and advances to customers as at the above respective reporting dates.

14 Loans and advances (continued)

(c) Impaired loans and advances to customers

	2021		2020	
	$'000	% of loans and advances to customers	$'000	% of loans and advances to customers
Overdue loans and advances to customers	31,629	0.03%	80,468	0.07%
Rescheduled loans and advances to customers	23,966	0.02%	29,140	0.03%
Gross impaired loans and advances to customers	55,595	0.05%	109,608	0.10%

The gross impaired loans and advances to customers disclosed above correspond to the total loans and advances to customers.

15 Financial assets at fair value through profit or loss

	2021 $'000	2020 $'000
Financial assets at fair value through profit or loss		
Treasury bills (including exchange fund notes)	69,480,276	71,652,003
Equity securities	538,667	696,000
Trading financial assets		
Derivative financial instruments (note 28(b))	159,242	130,136
	70,178,185	72,478,139
Issued by:		
- Sovereigns	69,480,276	71,652,003
- Corporates	538,667	696,000
	70,018,943	72,348,003

15 Financial assets at fair value through profit or loss (continued)

Analysed by place of listing:

	2021 $'000	2020 $'000
- Listed outside Hong Kong	689,132	792,683
- Unlisted	69,329,811	71,555,320
	70,018,943	72,348,003

16 Financial assets at fair value through other comprehensive income

	2021 $'000	2020 $'000
Exchange fund notes	44,065,706	36,440,049
Debt securities	-	2,379,480
	44,065,706	38,819,529
Issued by:		
- Sovereigns	44,065,706	36,440,049
- Corporates	-	2,379,480
	44,065,706	38,819,529
Analysed by place of listing:		
- Listed in Hong Kong	3,882,590	1,191,105
- Unlisted	40,183,116	37,628,424
	44,065,706	38,819,529

17 Financial assets at amortised cost

	2021 $'000	2020 $'000
Debt securities	3,898,275	3,875,900
Issued by:		
- Corporates	3,898,275	3,875,900
Analysed by place of listing:		
- Unlisted	3,898,275	3,875,900

18 Property, plant and equipment

	Buildings held for own use carried at cost $'000	*Right-of-use assets* $'000	*Installations, plant, machinery and other assets* $'000	*Construction in progress* $'000	*Total property, plant and equipment* $'000
Cost:					
At 1 January 2021	405,528	701,359	399,731	9,431	1,516,049
Additions	-	228,659	720	34,035	263,414
Transfer	-	-	27,989	(27,989)	-
Disposal/write-off	(405,528)	-	(267)	(691)	(406,486)
At 31 December 2021	-	930,018	428,173	14,786	1,372,977
Accumulated depreciation:					
At 1 January 2021	129,096	408,933	317,223	-	855,252
Charge for the year (note 7(b))	5,407	188,000	41,174	-	234,581
Write-back upon disposal/write-off	(134,503)	-	(265)	-	(134,768)
At 31 December 2021	-	596,933	358,132	-	955,065
Net book value:					
At 31 December 2021	-	333,085	70,041	14,786	417,912

18 Property, plant and equipment (continued)

	Buildings held for own use carried at cost $'000	*Right-of-use assets* $'000	*Installations, plant, machinery and other assets* $'000	*Construction in progress* $'000	*Total property, plant and equipment* $'000
Cost:					
At 1 January 2020	405,528	624,654	429,258	60,113	1,519,553
Additions	-	76,705	1,986	19,311	98,002
Transfer	-	-	59,484	(59,484)	-
Disposal/write-off	-	-	(90,997)	(10,509)	(101,506)
At 31 December 2020	405,528	701,359	399,731	9,431	1,516,049
Accumulated depreciation:					
At 1 January 2020	120,985	211,440	359,233	-	691,658
Charge for the year (note 7(b))	8,111	197,493	44,151	-	249,755
Write-back upon disposal/write-off	-	-	(86,161)	-	(86,161)
At 31 December 2020	129,096	408,933	317,223	-	855,252
Net book value:					
At 31 December 2020	276,432	292,426	82,508	9,431	660,797

18 Property, plant and equipment (continued)

Right-of-use assets

The Company presented right-of-use assets in "Property, plant and equipment", the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below.

	2021			
	Branches	*Automated Teller Machines*	*Back Office*	*Total*
	$'000	$'000	$'000	$'000
Balance at 1 January	259,631	32,795	-	292,426
Balance at 31 December	297,037	15,170	20,878	333,085

	2020			
	Branches	*Automated Teller Machines*	*Back Office*	*Total*
	$'000	$'000	$'000	$'000
Balance at 1 January	404,309	8,905	-	413,214
Balance at 31 December	259,631	32,795	-	292,426

During the year ended 31 December 2021, the Company sold one of its branch premises and leased it back for a term of 10 years. The lease also contains five consecutive options to renew for a further term of three years each. This sale-and-leaseback transaction enabled the Company to unlock value and generate funds to reinvest in the business while continuing to occupy the branch premises for its banking operation.

19 Intangible assets

	Capitalised software $'000	*Exclusivity right* $'000	*Total* $'000
Cost:			
At 1 January 2021	253,580	77,000	330,580
Addition	-	30,000	30,000
Write-off	(4,310)	-	(4,310)
At 31 December 2021	249,270	107,000	356,270
Accumulated amortisation:			
At 1 January 2021	226,923	70,333	297,256
Amortisation for the year (note 7(b))	19,107	10,000	29,107
Write-off	(4,310)	-	(4,310)
At 31 December 2021	241,720	80,333	322,053
Carrying amount:			
At 31 December 2021	7,550	26,667	34,217

	Capitalised software $'000	*Exclusivity right* $'000	*Total* $'000
Cost:			
At 1 January 2020	276,059	67,000	343,059
Addition	4,309	10,000	14,309
Write-off	(26,788)	-	(26,788)
At 31 December 2020	253,580	77,000	330,580
Accumulated amortisation:			
At 1 January 2020	233,399	60,333	293,732
Amortisation for the year (note 7(b))	20,312	10,000	30,312
Write-off	(26,788)	-	(26,788)
At 31 December 2020	226,923	70,333	297,256
Carrying amount:			
At 31 December 2020	26,657	6,667	33,324

20 Other assets

	2021 $'000	*2020* $'000
Accrued interest	557,268	567,926
Defined benefits asset	2,363	6,348
Prepaid expenses	51,133	30,775
Other accounts and receivables	2,426,994	3,771,290
Less: Impairment allowances	(2,368)	(1,474)
	3,035,390	4,374,865

The above balances do not contain amounts overdue for more than 12 months.

21 Deposits and balances from banks and other financial institutions

	2021 $'000	*2020* $'000
Deposits and balances from banks and authorised institutions	9,365,716	7,937,514
Deposits and balances from other financial institutions	36,604,678	40,773,686
Overdrafts	459,187	1,020,729
	46,429,581	49,731,929

The above amounts are also reflected in note 33(a) where they relate to transactions with related parties in the ordinary course of its banking business.

22 Deposits from customers

	2021 $'000	*2020* $'000
Demand deposits and current accounts	75,246,423	58,271,442
Savings deposits	144,497,688	139,167,015
Time, call and notice deposits	15,983,016	18,104,258
	235,727,127	215,542,715

23 Trading financial liabilities

	2021 $'000	*2020* $'000
Derivative financial instruments (note 28(b))	36,853	10,425

24 Other liabilities

	2021 $'000	*2020* $'000
Accrued interest	114,163	140,464
Reserve for expenses	1,227,418	1,097,759
Payable for equity-settled share-based payment	11,264	12,663
Accounts payable	2,947,059	4,549,009
Lease liabilities	463,397	296,254
	4,763,301	6,096,149

25 Share capital

2021

	A ordinary share No. of shares	*A ordinary share* Amount $'000	*B ordinary share* No. of shares	*B ordinary share* Amount $'000	*Total* No. of shares	*Total* Amount $'000
Ordinary shares, issued and fully paid:						
At 1 January and 31 December	71,834,230	7,183,423	1,650,170	165,017	73,484,400	7,348,440

2020

	A ordinary share No. of shares	*A ordinary share* Amount $'000	*B ordinary share* No. of shares	*B ordinary share* Amount $'000	*Total* No. of shares	*Total* Amount $'000
Ordinary shares, issued and fully paid:						
At 1 January and 31 December	71,834,230	7,183,423	1,650,170	165,017	73,484,400	7,348,440

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

The voting rights of A ordinary shares and B ordinary shares are attached to the shares as prescribed under article 80 of the Company's Articles of Association. The special voting right of B ordinary shares is to ensure that the total number of votes attaching to B ordinary shares should not be less than 80% of the total number of votes attached to all issued shares of the Company at any general meeting of the Company.

26 Reserves

	Capital reserves $'000	Fair value reserve $'000	Retained profits $'000	Total $'000
At 1 January 2021	(12,817)	10,453	16,302,692	16,300,328
Changes in reserves for 2021:				
Share-based payment transactions, net of tax	1,765	-	-	1,765
Total comprehensive income for the year	-	(31,341)	1,670,567	1,639,226
Dividend declared in respect of the current year	-	-	-	-
At 31 December 2021	(11,052)	(20,888)	17,973,259	17,941,319

	Capital reserves $'000	Fair value reserve $'000	Retained profits $'000	Total $'000
At 1 January 2020	(10,809)	(6,327)	15,504,203	15,487,067
Changes in reserves for 2020:				
Share-based payment transactions, net of tax	(2,008)	-	-	(2,008)
Total comprehensive income for the year	-	16,780	2,209,210	2,225,990
Dividend declared in respect of the current year	-	-	(1,410,721)	(1,410,721)
At 31 December 2020	(12,817)	10,453	16,302,692	16,300,328

(a) *Nature and purpose of reserves*

Fair value reserve

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

Capital reserves

The capital reserves comprise the subsequent change in fair value of the share awards granted to employees of the Company recognised in accordance with the accounting policy for share-based payments in note 1(h)(iv).

26 Reserves (continued)

(b) Regulatory reserve

To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Company has earmarked a regulatory reserve directly from retained profits. As of 31 December 2021, the effect of this requirement is to reduce the amount of reserves which can be distributed to equity shareholders by $529,833,000 (2020: $360,985,000).

(c) Distributability of reserves

A Level 3 reserve comprises the cumulative net change in the fair value of Level 3 securities held until the securities are derecognised. The derecognition policy is set out in note 1(d). At 31 December 2021, the Level 3 reserve balance was $504,839,000 (2020: $653,167,000). This amount is deducted from the aggregate amount of reserves available for distribution.

At 31 December 2021, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $16,906,647,000 (2020: $15,286,176,000).

(d) The directors did not propose any final dividend (2020: $Nil) after the year end.

27 Cash and cash equivalents

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

	2021 $'000	*2020* $'000
Cash and balances with banks, central banks and other financial institutions with original maturity within three months	10,679,409	7,489,456
Placements with banks and other financial institutions with original maturity within three months	247,378	193,838
Financial assets at fair value through profit or loss with original maturity within three months	8,042,628	39,308,671
	18,969,415	46,991,965
Less: Overdrafts	(459,187)	(1,020,729)
Cash and cash equivalents in the cash flow statement	18,510,228	45,971,236

27 Cash and cash equivalents (continued)

(b) Reconciliation with the statement of financial position

	2021 $'000	*2020* $'000
Cash and balances of banks, central banks and other financial institutions	12,571,968	9,410,918
Placements with banks and other financial institutions	14,729,236	13,628,205
Financial assets at fair value through profit or loss		
- Treasury bills	69,480,276	71,652,003
Financial assets at fair value through other comprehensive income		
- Exchange fund notes	44,065,706	36,440,049
- Debt securities	-	2,379,480
Amounts shown in the statement of financial position	140,847,186	133,510,655
Less: Amounts with an original maturity of beyond three months	(121,877,771)	(86,518,690)
Less: Overdrafts	(459,187)	(1,020,729)
Cash and cash equivalents in the cash flow statement	18,510,228	45,971,236

28 Derivatives

Derivatives are used for managing the Company's own exposures to market risk as part of its asset and liability management process and their sale to customers as part of the Company's business activities. The principal derivative instruments used by the Company are foreign exchange rate related contracts, which are primarily over-the-counter derivatives.

(a) Notional amount of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The notional amounts of these instruments indicate the volume of outstanding transactions and do not represent amounts at risk.

	2021 $'000	*2020* $'000
Currency derivatives		
Forwards and futures	24,362,668	16,266,785
Options purchased	786,774	1,759,429
Options written	786,774	1,759,429
	25,936,216	19,785,643

Currency forwards and futures are acquired or incurred principally for hedging purposes. Currency options are customer driven transactions and hedging transactions. The Company has elected not to use hedge accounting.

28 Derivatives (continued

(b) Fair values and credit risk weighted amounts of derivatives

	2021			*2020*		
	Fair value		*Credit risk weighted amount*	*Fair value*		*Credit risk weighted amount*
	Assets	*Liabilities*		*Assets*	*Liabilities*	
	$'000	$'000	$'000	$'000	$'000	$'000
Currency derivatives	159,242	36,853	164,097	130,136	10,425	73,233
	(Note 15)	(Note 23)		(Note 15)	(Note 23)	

The credit equivalent amounts are assessed in accordance with the Banking (Capital) Rules and depend on the status of the counterparty and maturity characteristics of the instrument. The risk weights used range from 0% to 1250%.

The fair values and credit risk weighted amounts do not take into account any bilateral netting arrangements entered into during the year and accordingly these amounts are shown on a gross basis.

(c) Remaining life of derivatives

The following table provides an analysis of the notional amounts of derivatives of the Company by relevant maturity grouping based on the remaining periods to settlement at the statement of financial position date.

	Notional amounts with remaining life of					
	2021			*2020*		
	Total	*1 year or less*	*Over 1 year to 5 years*	*Total*	*1 year or less*	*Over 1 year to 5 years*
	$'000	$'000	$'000	$'000	$'000	$'000
Currency derivatives	25,936,216	25,936,216	-	19,785,643	19,785,643	-

29 Contingent liabilities and commitments

(a) *Contingent liabilities and commitments to extend credit*

	2021 $'000	2020 $'000
Contractual or notional amounts		
Forward forward deposits placed	47	901,789
Other commitments		
- with an original maturity of not more than one year	2,046,776	1,698,635
- with an original maturity of more than one year	572,719	749,303
- which are unconditionally cancellable	82,048,560	81,254,645
Total	84,668,102	84,604,372
Credit risk weighted amounts	357,090	519,254

Contingent liabilities and commitments are forward deposits placed as well as credit-related instruments. The risk involved is similar to the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of other commitments is expected to expire without being drawn upon, the total of contractual amounts is not representative of future liability requirements.

The credit risk-weighted amounts are assessed in accordance with the Banking (Capital) Rules and depend on the status of the counterparty and the maturity characteristics of the instrument. The risk weights used range from 0% to 1250%.

30 Trust activities

The Company commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as the Company does not control the assets.

31 Financial risk management

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

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

- market risk: risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and market risk comprises currency risk, interest rate risk and other price risk.

- liquidity and funding risk: risk that the Company is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments.

- operational risk: risk arising from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputation loss.

The Company has established policies and procedures to identify and analyse 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 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.

(a) Credit risk management

This category includes credit and counterparty risks from loans and advances and counterparty risks from trading and investing activities and also third parties to either hold, collect, or settle the funds on behalf of the Company. The Company identifies and manages this risk through its (a) target market definitions, (b) credit approval process, (c) post-disbursement monitoring and (d) remedial management procedures.

Credit Risk Management is responsible for the quality and performance of credit portfolios of the Company, through which it can pursue a long-term sustainable and profitable growth. It manages, monitors and controls all credit risks within the Company through:

- formulating credit policies on new acquisition, portfolio management, collection and recovery for credit portfolios;

- developing risk acceptance criteria for portfolios towards segments, sectors, industries, usages and collateral;

- undertaking an independent review and objective assessment of credit risks;

31 Financial risk management (continued)

- controlling exposures to portfolios, industries, counterparties and countries, etc. by setting limits;

- monitoring the performance of credit portfolios, including collateral positions, and developing effective remedial strategies;

- evaluating potentially adverse scenarios that may impact the quality and performance of credit portfolios;

- establishing key risk indicators that assess the market situation on on-going basis; and

- providing advice and guidance to business units on various credit-related issues.

The Company's credit risk arises mainly from its consumer and treasury operations.

Consumer credit risk

The Company's consumer credit policy, approval process and credit delegation authority are designed for the fact that there are high volumes of relatively homogeneous, small value transactions in each consumer loan category. Because of the nature of consumer banking, the credit policies are based primarily on statistical analyses of risks with respect to different products and types of customers. The Company has established methodologies on risk assessment for new product launch as well as periodic review of the terms of existing products, so as to achieve the desired customer profiles.

Credit risk for treasury transactions

The Company's treasury activities are predominantly with group entities or with institutions and governments with strong credit standing. As such, credit risk for the Company's treasury activities is not significant.

Credit-related commitments

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions, are therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

Master netting arrangements

The Company enters into master netting arrangements with counterparties whenever possible. Netting agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis.

31 Financial risk management (continued)

Offsetting financial assets and financial liabilities

The following table present details of financial instruments subject to offsetting and enforceable master netting arrangements.

	2021				
	Gross amounts $'000	*Gross amounts offset in the statement of financial position* $'000	*Net amounts presented in the statement of financial position* $'000	*Related amounts not offset in the statement of financial position* $'000	*Net amount* $'000
Assets					
Loans and advances to customers	118,392,849	(341,996)	118,050,853	-	118,050,853
Positive fair value of derivatives	159,242	-	159,242	(31,399)	127,843
	118,552,091	(341,996)	118,210,095	(31,399)	118,178,696
Liabilities					
Deposits from customers	236,069,123	(341,996)	235,727,127	-	235,727,127
Negative fair value of derivatives	36,853	-	36,853	(31,399)	5,454
	236,105,976	(341,996)	235,763,980	(31,399)	235,732,581

	2020				
	Gross amounts $'000	*Gross amounts offset in the statement of financial position* $'000	*Net amounts presented in the statement of financial position* $'000	*Related amounts not offset in the statement of financial position* $'000	*Net amount* $'000
Assets					
Loans and advances to customers	101,425,177	(408,530)	101,016,647	-	101,016,647
Positive fair value of derivatives	130,136	-	130,136	(1,951)	128,185
	101,555,313	(408,530)	101,146,783	(1,951)	101,144,832
Liabilities					
Deposits from customers	215,951,245	(408,530)	215,542,715	-	215,542,715
Negative fair value of derivatives	10,425	-	10,425	(1,951)	8,474
	215,961,670	(408,530)	215,553,140	(1,951)	215,551,189

31 Financial risk management (continued)

Concentration of credit risk

The Company pursues a strategy of mitigating any concentration in credit risk by diversifying the asset portfolio. The total asset portfolio consists of a balanced mix of collateralised products (mortgages and margin finance), as well as credit cards and unsecured credit facility but is concentrated in Hong Kong.

(i) Maximum exposure

The maximum exposure to credit risk at the statement of financial position date without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	2021 $'000	*2020* $'000
Cash and balances with banks, central banks and other financial institutions	12,569,987	9,409,863
Placements with banks and other financial institutions	14,726,914	13,626,667
Loans and advances	163,183,853	151,732,931
Financial assets at fair value through profit or loss	70,178,185	72,478,139
Financial assets at fair value through other comprehensive income	44,065,706	38,819,529
Financial assets at amortised cost	3,898,275	3,875,900
Other assets	2,981,894	4,337,742
Forward forward deposits placed	47	901,789
Loan commitments and other credit related commitments	84,668,055	83,702,583
	396,272,916	378,885,143

31 Financial risk management (continued)

(ii) Credit quality of loans and advances

The Company classifies the loans and advances in accordance with the loan classification system required to be adopted for reporting to the HKMA.

The credit quality of loans and advances to customers can be analysed as follows:

	2021 $'000	*2020* $'000
Gross loans and advances to customers		
- neither past due nor impaired	116,628,505	99,784,268
- past due but not impaired	1,366,753	1,122,771
- impaired	55,595	109,608
	118,050,853	101,016,647

Of which:

Gross loans and advances to customers that are neither past due nor impaired		
- Grade 1: Pass	116,624,468	99,776,289
- Grade 2: Special mention	3,507	6,766
- Grade 3: Substandard	380	418
- Grade 4: Doubtful	150	795
	116,628,505	99,784,268

The ageing analysis of loans and advances to customers that are past due but not impaired as follows:

	2021 $'000	*2020* $'000
Gross loans and advances to customers that are past due but not impaired		
- Overdue 3 months or less	1,366,753	1,122,771

31 Financial risk management (continued)

The ageing analysis of rescheduled loans and advances to customers is as follows:

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Company. Rescheduled loans and advances to customers are stated net of any loans and advances that have subsequently become overdue for over 3 months and can be analysed as follows:

	2021 $'000	*2020* $'000
Normal	17,553	19,345
Overdue but less than 3 months	6,413	9,795
	23,966	29,140

31 Financial risk management (continued)

The following tables sets out information about the credit quality of loans and advances to customers. Unless specifically indicated, the amounts in the table represents gross carrying amounts:

	2021							
	12-month ECL		*Lifetime ECL not credit-impaired*		*Lifetime ECL credit-impaired*		*Total*	
	Principal $'000	*Accrued interest* $'000	*Principal* $'000	*Accrued interest* $'000	*Principal* $'000	*Accrued interest* $'000	*Principal* $'000	*Accrued interest* $'000
Loans and advances to customers at amortised cost								
Grade 1: Pass	117,823,210	137,348	126,190	-	3,574	-	117,952,974	137,348
Grade 2: Special Mention	3,571	149	20,317	847	2,450	102	26,338	1,098
Grade 3: Substandard	13,283	1,034	22,871	1,781	15,050	1,172	51,204	3,987
Grade 4: Doubtful	65	10	10	1	20,262	3,128	20,337	3,139
Grade 5: Loss	-	-	-	-	-	-	-	-
Total gross carrying amount	117,840,129	138,541	169,388	2,629	41,336	4,402	118,050,853	145,572
Impairment allowance	(148,415)	-	(114,984)	-	(27,092)	-	(290,491)	-
Carrying amount	117,691,714	138,541	54,404	2,629	14,244	4,402	117,760,362	145,572

31 Financial risk management (continued)

	2020							
	12-month ECL		*Lifetime ECL not credit-impaired*		*Lifetime ECL credit-impaired*		*Total*	
	Principal $'000	*Accrued interest* $'000	*Principal* $'000	*Accrued interest* $'000	*Principal* $'000	*Accrued interest* $'000	*Principal* $'000	*Accrued interest* $'000
Loans and advances to customers at amortised cost								
Grade 1: Pass	100,709,389	134,593	138,463	-	7,047	-	100,854,899	134,593
Grade 2: Special Mention	6,988	2	23,624	1,128	2,839	47	33,451	1,177
Grade 3: Substandard	12,524	4	33,640	477	16,110	169	62,274	650
Grade 4: Doubtful	160	-	150	12	39,770	489	40,080	501
Grade 5: Loss	-	-	-	-	25,943	-	25,943	-
Total gross carrying amount	100,729,061	134,599	195,877	1,617	91,709	705	101,016,647	136,921
Impairment allowance	(177,082)	-	(141,482)	-	(39,822)	-	(358,386)	-
Carrying amount	100,551,979	134,599	54,395	1,617	51,887	705	100,658,261	136,921

31 Financial risk management (continued)

(iii) Credit quality of financial assets other than loans and advances

Credit risk of treasury transactions is managed in the same way as the Company manages its corporate lending risk and risk gradings are applied to the counterparties with individual counterparty limits set.

At the statement of financial position date, the credit quality of investment in debt and equity securities analysed by designation of an external credit assessment institution, Standard & Poor's Ratings Services, is as follows:

	2021 $'000	*2020* $'000
AAA	10,870,370	12,851,685
AA - to AA+	106,573,887	101,495,747
A - to A+	-	-
Unrated	538,667	696,000

(iv) Impairment allowances reconciliation

The following tables show reconciliations from the opening to the closing balance of the impairment allowances on loans and advances to customers.

	2021			
	12-month ECL $'000	*Lifetime ECL not credit-impaired* $'000	*Lifetime ECL credit-impaired* $'000	*Total* $'000
At 1 January 2021	177,082	141,482	39,822	358,386
Transfer to 12-month ECL	78,069	(74,686)	(3,383)	-
Transfer to lifetime ECL not credit-impaired	(979)	1,340	(361)	-
Transfer to lifetime ECL credit-impaired	(796)	(38,790)	40,449	863
Impairment losses charged to income statement:				
Net remeasurement of loss allowance	(103,549)	80,144	110,894	87,489
New financial assets originated or purchased, assets derecognised, repayments and further lending	(1,412)	5,494	5,373	9,455
Amounts written off	-	-	(262,171)	(262,171)
Recoveries of loans and advances written off	-	-	96,469	96,469
At 31 December 2021	148,415	114,984	27,092	290,491

31 Financial risk management (continued)

	2020			
	12-month ECL $'000	*Lifetime ECL not credit-impaired* $'000	*Lifetime ECL credit-impaired* $'000	*Total* $'000
At 1 January 2020	174,832	182,760	38,720	396,312
Transfer to 12-month ECL	102,669	(101,081)	(1,588)	-
Transfer to lifetime ECL not credit-impaired	(1,101)	1,116	(15)	-
Transfer to lifetime ECL credit-impaired	(4,904)	(51,262)	56,166	-
Impairment losses charged to income statement:				
Net remeasurement of loss allowance	(89,288)	102,073	177,019	189,804
New financial assets originated or purchased, assets derecognised, repayments and further lending	(5,126)	7,876	5,041	7,791
Amounts written off	-	-	(328,590)	(328,590)
Recoveries of loans and advances written off	-	-	93,069	93,069
At 31 December 2020	177,082	141,482	39,822	358,386

(v) Collateral and other credit enhancements

The Company holds collateral against loans and advances to customers in the form of mortgages over property, other registered securities over assets, cash deposits, insurance policies and guarantees. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. An estimate of the fair value of collateral and other credit enhancements held against financial assets is as follows:

	2021 $'000	*2020* $'000
Fair value of collateral and other credit enhancements held against financial assets that are:		
- neither past due nor impaired	248,561,300	221,950,166
- past due but not impaired	2,797,287	2,236,811
	251,358,587	224,186,977

31 Financial risk management (continued)

Collateral

Where possible, the Company takes collateral as a secondary recourse to the borrower. The collateral mainly includes cash, marketable securities, insurance policies and properties. The Company has put in place policies which determine the types of collateral for credit risk mitigation.

Whilst the Company's maximum exposure to credit risk is the carrying value of the assets or, in the case of off-balance sheet instruments, the amount guaranteed, committed, accepted or endorsed, the likely exposure may be lower due to offsetting collateral, credit guarantees and other actions taken to mitigate the Company's exposure.

The description of collateral for each class of financial asset is set out below:

(i) Balances and placements with banks, central banks and other financial institutions, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

Collateral is generally not sought for these assets.

(ii) Positive fair values for derivative financial instruments

The Company maintains collateral agreements and enters into master netting agreements with some of the counterparties for derivative transactions. The collateral is marked to market on a mutually agreed period with the respective counterparties. The impact of netting arrangements recognised for the computation of capital adequacy ratio is shown in the disclosures required under the Banking (Disclosure) Rules.

(iii) Loans and advances to customers, contingent liabilities and commitments

Certain advances to customers, contingent liabilities and commitments are typically collateralised to a substantial extent. In particular, residential mortgage exposures are generally fully secured by residential properties. The collateral is revalued periodically ranging from daily to annually, depending on the type of collateral. In general, the Company considers the collateral it has taken as well diversified and sufficient against its exposures.

The extent to which credit exposures are covered by eligible collateral under the Banking (Capital) Rules is shown in the disclosures required under the Banking (Disclosure) Rules. The amounts shown is a sub-set of the actual collateral arrangements entered into by the Company as the Banking (Capital) Rules impose strict legal and operational standards before collateral can be admitted as credit risk mitigants. As a result, certain collateral arrangements which do not meet its criteria will not be included. Certain collateral types which are not permitted as credit risk mitigants for credit exposures under the Standardized Approach are also excluded. The applicable hair-cuts towards the collateral, as stipulated in Banking (Capital) Rules, are followed.

31 Financial risk management (continued)

(b) Market risk management

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

The Treasury Department manages interest rate risks within the limits approved by the Market Risk Management and/or Asset and Liability Management Committee (ALCO), and these risks are monitored and reported by an independent Reporting unit. It also reviews and sets limits package as well as permitted product list, ensuring adherence to risk management objectives. These are governed by the Company's Mark to Market Policy.

Derivative instruments are used to manage the Company's own exposures to market risk as part of its asset and liability management process. The principal derivatives instruments used by the Company are foreign exchange rate related contracts, which are primarily over-the-counter derivatives.

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

The Company sets various positions and sensitivity limit structures. Additionally, the Company applies quantitative techniques and simulation models to identify and assess the potential net interest income and market value effects of these interest rate positions in different interest rate scenarios. The primary objective of such interest rate risk management is to limit the potential adverse effect of interest rate movements on net interest income. The Market Risk Manager monitors interest rate risks against set limits on a daily basis. All exceptions are reviewed and approved by the appropriate level of Market Risk Management.

(i) Currency risk

The Company's foreign currency positions arise from foreign exchange transactions. All foreign currency positions are managed by the Treasury Department within limits approved by the Market Risk Management and ALCO.

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

The Company is exposed to currency risks primarily arising from financial instruments that are denominated in the United States dollar ("USD"). In respect of financial instruments denominated in other currencies, the Company ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at Market rates where necessary to address short-term imbalances.

31 Financial risk management (continued)

(ii) Interest rate risk

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

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

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

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

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

31 Financial risk management (continued)

Other key assumptions incorporated by the Company with respect to the HKMA reporting requirements are as follows:

- For cash flow profiling, the Company adopts methodology of including commercial margins and other spread components; and

- Major currency positions reported are determined based on the criteria defined by the HKMA. Currencies identified as significant for the current annual reporting date at 31 December 2021 are HKD, USD, AUD and GBP. IRR Sensitivities do not include any netting across currencies. All favorable exposures (gains) are excluded and adverse exposures (losses) are reported.

Quantitative Disclosure

Non-maturity deposits ("NMD") repricing risk is modeled according to modeled rate and balance forecasts that incorporate assumptions on customer behavior and the impact of pricing decisions. Both the rate and balance models, reviewed on an annual basis, at the minimum, are determined using historical data spanning different rate cycles.

Given multi-rate sensitivity assumptions applied in the six interest rate shock scenarios, the average repricing maturity assigned to NMDs will be different. The below table provides the average (notional-weighted maturity) and the longest repricing maturity in parallel up interest rate shock scenario.

(in years)	***Repricing maturity assigned to NMDs***
Average (notional-weighted maturity)	1.7
Longest	3.4

This table provides information on the change in economic value of equity ("EVE") and change in net interest income ("NII") over the next 12 months under each of the prescribed interest rate shock scenarios in respect of the Company's interest rate exposures arising from banking book positions. The Company's variations in earnings based on the standardized framework described in the Supervisory Policy Manual module IR-1 "Interest Rate Risk in the Banking Book" and the Return on Interest Rate Risk in the Banking Book (MA(BS)12A) for the current annual reporting date at 31 December 2021, and comparative figures versus prior year are as follows:

	(in HKD million)	Change in EVE		Change in NII	
	Period	**31 December 2021**	**31 December 2020**	**31 December 2021**	**31 December 2020**
1	Parallel up	0	0	-1,163	-898
2	Parallel down	1,898	104	-27	-386
3	Steepener	0	0	[redacted]	
4	Flattener	374	359		
5	Short rate up	37	0		
6	Short rate down	278	58		
7	**Maximum**	1,898	359	-27	-386
	Period	**31 December 2021**		**31 December 2020**	
8	**Tier 1 capital**	24,799		23,181	

31 Financial risk management (continued)

Based on the above reported figures, the maximum EVE decline will occur in parallel down interest rate shock scenario, which would lead to a 7.65% Maximum EVE vs Tier 1 Capital ratio in 2021, a 6.10% increase from 1.55% reported in 2020.

(in HKD million)		Maximum EVE		
	Period	**31 December 2021**	**31 December 2020**	**ΔYoY**
1	Maximum	1,898	359	[redacted]
2	Tier 1 capital	24,799	23,181	
3	**Maximum EVE vs Tier 1 Capital**	**7.65%**	**1.55%**	**6.10%**

(c) Liquidity risk management

The Company's liquidity risk management process is integrated into the overall liquidity and funding process and liquidity monitoring framework. Liquidity is managed at the Company-level, the Citibank, N.A.-level, the Country level and the level of Material Legal Entity ("MLE").

Citigroup policy requires all MLE (which is the level at which the Company is operating at) to maintain a strong liquidity position and ensure sufficient cash flows to meet all financial commitment and to capitalize on opportunities for business expansion. This includes the Company's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity ratio, and make new loans and investments as opportunities arise. The Company maintains a pool of customer deposits, which are made up of current and savings accounts and time deposits. The customer deposits are widely diversified by type and maturity and represent a stable source of funding.

Policies and Procedures

The Company has established an ALCO. The ALCO Charter includes the monitoring and control of liquidity and funding. ALCO monitors trends in statement of financial position and ensures that any concerns that might impact the stability of the customer deposits are addressed effectively.

It is the responsibility of the Company's management to ensure compliance with local regulatory requirements and limits set by ALCO. The Company's liquidity resources are managed by the treasurer. Liquidity is managed on a daily basis by the treasury function. The Board is ultimately responsible for overseeing liquidity risk that the Company is able to take and ensure that there is a robust liquidity management process in place.

31 Financial risk management (continued)

The Company's liquidity risk management framework requires limits to be set for prudent liquidity management, the limits and internal targets include:

- Net intragroup balance
- Liquidity ratios
- Loan to deposit ratio
- Daily TLST
- Monthly Local TLST
- Resolution Liquidity Adequacy and Positioning ("RLAP")

All limits and internal targets are reviewed at least annually together with Horizontal Liquidity Review Process and more frequently if required, to ensure that they remain relevant to current market conditions and business strategy. These limits and targets are monitored and reviewed by ALCO on a regular basis. Any limit excess will be escalated under a delegated authority structure and reviewed by ALCO and the Board. A Contingency Funding and Liquidity Plan ("CFP") playbook is in place for Hong Kong, on a total country basis, which lays out the trigger points and actions in the event of liquidity crisis to ensure that there is an effective response by senior management in case of such an event.

The Company's securities holdings are mainly in government securities that can be liquidated, repurchased or used as collateral in the event of liquidity stress.

Stress Test

The Company uses multiple measures in monitoring its liquidity, including those described below. In addition, there continues to be numerous regulatory developments relating to future liquidity standards and requirements applicable to financial institutions such as the Company, including certain measures discussed below.

Stress testing and scenario analyses are intended to quantify the potential impact of a liquidity event on the statement of financial position (including on and off balance sheet), contingent funding obligations and other liquidity exposures, and to identify viable funding alternatives that can be utilized. These scenarios include assumptions about significant changes in key funding sources, market triggers (such as credit ratings), potential uses of funding and political and economic conditions in certain countries. These conditions include standard and stress market conditions as well as firm-specific events.

A wide range of liquidity events are considered to ascertain potential mismatches between liquidity sources and uses over a variety of time horizons by tenor buckets. Liquidity limits are set accordingly. To monitor the liquidity of the Company, those stress tests and potential mismatches may be calculated with varying frequencies, with several important tests performed daily. All assumptions used in the stress scenarios must be reviewed under the "Horizontal Liquidity Review Process".

31 Financial risk management (continued)

TLST - "Term Liquidity Stress Test" is the Company's primary long-term internal stress metric. The TLST scenario assumes a market and idiosyncratic backdrop against which the Company can measure its stressed liquidity needs. The scenario describes stress conditions across 365 days including the Company's customer/counterparty behaviour, its ability to access funding markets as well as any mitigating actions management can take to protect franchise. TLST is used to measure a 12-month survival, i.e. the Company must maintain sufficient liquidity to meet all maturing obligations within 12 months under the TLST stress scenario. TLST is prepared and monitored daily for all currencies including HKD, CNY and G10 currencies.

Local TLST - "Institution Specific and Local Market Scenario" represents a significant local market disruption such as a collapse of a major local bank, or an abrupt change in the regulatory or political environment, which will affect the liquidity available to that market. It requires a self-sufficiency period over a 12-month period and it is performed on a monthly basis.

Resolution Liquidity Adequacy and Positioning ("RLAP") is a short-term internal stress metric used to measure the short-term (30 days) survival horizon under a Severe Market Disruption stress scenario. It is designed to ensure there are sufficient liquidity resources to withstand outflows associated with Resolution scenario with a 30-day survival period under a severely stress market condition. Assumptions are internally developed and referenced to US LCR and the RLAP is produced and monitored on a daily basis.

Encumbered and unencumbered assets

An asset is defined as encumbered, from a liquidity perspective, if it has been pledged as collateral against an existing liability, and as a result is no longer available to the Company to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. An asset is therefore categorized as unencumbered if it has not been pledged against an existing liability. As of 31 December 2021, High Quality Liquid Assets ("HQLA") held by the Company are mostly unencumbered assets, except a small portion of Hong Kong exchange fund bills which are set aside for intraday liquidity needs.

The Company maintains a sufficient cushion of HQLA which can be sold or used as collateral to provide liquidity under stress period. The compositions of the HQLA are mainly in government securities together with a small portion of high investment grade credit securities. The size of the liquidity cushion was approximately HK$113 billion as of 31 December 2021.

Citibank, N.A.'s credit ratings as at the end of December 2021 were A+ (S&P) and Aa3 (Moody's). Given that other Citibank entities are our only counterparties for these derivative transactions and cash positions are held or posted as collateral according to the mark to market of the contracts, Citibank's credit ratings downgrade has minimal impact on the Company's derivative collateral requirement.

31 Financial risk management (continued)

(i) Analysis of assets and liabilities by remaining maturity

The following maturity profile is based on the remaining period at the statement of financial position date to the contractual maturity date.

	2021							
	Total $'000	*Repayable on demand* $'000	*1 month or less* $'000	*Over 1 month to 3 months* $'000	*Over 3 months to 1 year* $'000	*Over 1 year to 5 years* $'000	*Over 5 years* $'000	*Undated or overdue* $'000
Assets								
Cash and balances with banks, central banks and other financial institutions	12,569,987	7,827,852	4,742,135	-	-	-	-	-
Placements with banks and other financial institutions	14,726,914	-	-	2,243,171	12,483,743	-	-	-
Loans and advances	163,183,853	7,619,852	656,641	4,044,971	19,254,259	69,479,411	62,035,107	93,612
Financial assets at fair value through profit or loss	70,178,185	-	3,609,021	50,047,897	15,823,358	-	-	697,909
Financial assets at fair value through other comprehensive income	44,065,706	-	6,289,392	22,594,920	11,298,804	3,882,590	-	-
Financial assets at amortised cost	3,898,275	-	-	-	-	3,898,275	-	-
Non-interest bearing assets	3,623,701	-	-	-	-	-	-	3,623,701
Total assets	312,246,621	15,447,704	15,297,189	78,930,959	58,860,164	77,260,276	62,035,107	4,415,222
Liabilities								
Deposits and balances from banks and other financial institutions	46,429,581	459,187	16,191,994	885,232	6,301,419	22,591,749	-	-
Deposits from customers	235,727,127	219,744,111	8,857,126	6,392,816	731,508	1,566	-	-
Trading financial liabilities	36,853	-	-	-	-	-	-	36,853
Lease liabilities	463,397	-	16,673	33,419	99,444	213,221	100,640	-
Other non-interest bearing liabilities	4,299,904	-	-	-	-	-	-	4,299,904
Total liabilities	286,956,862	220,203,298	25,065,793	7,311,467	7,132,371	22,806,536	100,640	4,336,757
Asset liability gap	25,289,759	(204,755,594)	(9,768,604)	71,619,492	51,727,793	54,453,740	61,934,467	78,465

31 Financial risk management (continued)

	2021							
	Total $'000	Repayable on demand $'000	1 month or less $'000	Over 1 month to 3 months $'000	Over 3 months to 1 year $'000	Over 1 year to 5 years $'000	Over 5 years $'000	Undated or overdue $'000
Commitments								
Other commitments	84,668,055	82,621,279	1,565,599	430,120	51,057	-	-	-
Forward forward deposits placed	47	-	47	-	-	-	-	-
Total commitments	84,668,102	82,621,279	1,565,646	430,120	51,057	-	-	-
Of which:								
Debt securities:								
- included in financial assets at fair value through profit or loss	69,480,276	-	3,609,021	50,047,897	15,823,358	-	-	-
- included in financial assets at fair value through other comprehensive income	44,065,706	-	6,289,392	22,594,920	11,298,804	3,882,590	-	-
- included in financial assets at amortised cost	3,898,275	-	-	-	-	3,898,275	-	-
	117,444,257	-	9,898,413	72,642,817	27,122,162	7,780,865	-	-

31 Financial risk management (continued)

	2020							
	Total $'000	Repayable on demand $'000	1 month or less $'000	Over 1 month to 3 months $'000	Over 3 months to 1 year $'000	Over 1 year to 5 years $'000	Over 5 years $'000	Undated or overdue $'000
Assets								
Cash and balances with banks, central banks and other financial institutions	9,409,863	4,606,159	4,803,704	-	-	-	-	-
Placements with banks and other financial institutions	13,626,667	-	-	2,533,151	11,093,516	-	-	-
Loans and advances	151,732,931	7,066,196	469,196	3,891,416	15,717,885	73,627,350	50,807,231	153,657
Financial assets at fair value through profit or loss	72,478,139	-	29,522,739	35,854,714	6,274,550	-	-	826,136
Financial assets at fair value through other comprehensive income	38,819,529	-	4,263,935	12,445,732	18,539,277	3,570,585	-	-
Financial assets at amortised cost	3,875,900	-	-	-	-	3,875,900	-	-
Non-interest bearing assets	5,135,743	-	-	-	-	-	-	5,135,743
Total assets	295,078,772	11,672,355	39,059,574	54,725,013	51,625,228	81,073,835	50,807,231	6,115,536
Liabilities								
Deposits and balances from banks and other financial institutions	49,731,929	1,020,729	14,726,549	772,096	5,996,109	27,216,446	-	-
Deposits from customers	215,542,715	197,438,457	10,925,134	6,796,831	381,518	775	-	-
Trading financial liabilities	10,425	-	-	-	-	-	-	10,425
Lease liabilities	296,254	-	15,790	31,667	134,434	114,363	-	-
Other non-interest bearing liabilities	5,848,681	-	-	-	-	-	-	5,848,681
Total liabilities	271,430,004	198,459,186	25,667,473	7,600,594	6,512,061	27,331,584	-	5,859,106
Asset liability gap	23,648,768	(186,786,831)	13,392,101	47,124,419	45,113,167	53,742,251	50,807,231	256,430

31 Financial risk management (continued)

	2020							
	Total $'000	*Repayable on demand* $'000	*1 month or less* $'000	*Over 1 month to 3 months* $'000	*Over 3 months to 1 year* $'000	*Over 1 year to 5 years* $'000	*Over 5 years* $'000	*Undated or overdue* $'000
Commitments								
Other commitments	83,702,583	82,003,949	1,258,620	425,814	14,200	-	-	-
Forward forward deposits placed	901,789	-	901,789	-	-	-	-	-
Total commitments	84,604,372	82,003,949	2,160,409	425,814	14,200	-	-	-
Of which:								
Debt securities:								
- included in financial assets at fair value through profit or loss	71,652,003	-	29,522,739	35,854,714	6,274,550	-	-	-
- included in financial assets at fair value through other comprehensive income	38,819,529	-	4,263,935	12,445,732	18,539,277	3,570,585	-	-
- included in financial assets at amortised cost	3,875,900	-	-	-	-	3,875,900	-	-
	114,347,432	-	33,786,674	48,300,446	24,813,827	7,446,485	-	-

As the trading portfolios may be sold before maturity or deposits from customers may mature without being withdrawn, the contractual maturity dates do not represent expected dates of future cash flows.

31 Financial risk management (continued)

(ii) Analysis of non-derivative financial liabilities by contractual undiscounted cash flows

The following table details the remaining contractual maturities at the statement of financial position date of the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the statement of financial position date) and the earliest date the Company can be required to pay:

	2021			
	Carrying amount $'000	*Total contractual undiscounted cash flow* $'000	*Within 1 year or on demand* $'000	*Over 1 year to 5 years* $'000
Deposits and balances from banks and other financial institutions	46,429,581	46,893,049	23,868,250	23,024,799
Deposits from customers	235,727,127	235,730,069	235,728,496	1,573
	282,156,708	282,623,118	259,596,746	23,026,372

	2020			
	Carrying amount $'000	*Total contractual undiscounted cash flow* $'000	*Within 1 year or on demand* $'000	*Over 1 year to 5 years* $'000
Deposits and balances from banks and other financial institutions	49,731,929	50,407,408	22,550,691	27,856,717
Deposits from customers	215,542,715	215,545,537	215,544,758	779
	265,274,644	265,952,945	238,095,449	27,857,496

(d) *Operational risk management*

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition of operational risk includes legal risk – which is the risk of loss (including litigation costs, settlements and regulatory fines) resulting from the failure of the bank to comply with laws, regulations, prudent ethical standards, and contractual obligations in any aspect of the bank's business – but excludes strategic and reputation risks. The Company also recognizes the impact of operational risk on reputation risk associated with its business activities.

31 Financial risk management (continued)

Operational risk is inherent in the Company's business activities and is managed through an overall framework with checks and balances that include recognized ownership of the risk by the businesses and independent risk management oversight. The Company mitigates its operational risk by setting up its key controls and assessments according to Citigroup's and the Regulators' standards. They are also evaluated, monitored, and managed by its sound governance structure.

The Operational Risk Management ("ORM") team establishes and oversees the design, implementation and maintenance of the Operational Risk Management Framework ("ORMF"). The ORMF establishes standards for consistent identification, measurement, monitoring, reporting and management of operational risk across the Company which are designed to lead to effective anticipation and mitigation of operational risk and improved loss experience. It also provides an enterprise-wide assessment framework for significant current and emerging operational risks. This approach furthers business ownership and accountability in terms of risk management, supported by the ORM team.

Citigroup's Operational Risk Framework includes a governance structure that supports core operational risk management activities of anticipation, mitigation and recovery by three lines of defence which are the Business Management and a number of corporate functions (i.e. Chief Administrative Office, Finance, Enterprise Operations and Technology, Global Public Affairs), independent risk oversight (i.e. Independent Compliance Risk Management and Independent Risk Management), and Internal Audit. Additionally, there are enterprise control and support functions (i.e. Legal, Human Resources).

Principles of Good Operational Risk Management:

Strong Ownership and Oversight

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

Dynamic Framework and Tools

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

31 Financial risk management (continued)

(e) Capital management

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

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

The process of allocating capital to specific operations and activities is undertaken by senior management.

Consistent with industry practice, the Company monitors its capital structure on the basis of the capital adequacy ratio and there have been no material changes in the Company's policy on the management of capital during the year.

The Company has complied with all externally imposed capital requirements, with capital positions well above the minimum capital requirement set by the HKMA, throughout the years ended 31 December 2021 and 2020. Further information on the Company's capital positions can be found in part (a) of the unaudited supplementary information.

32 Fair values of financial instruments

(a) Estimation of fair values

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 organised 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 realisable 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 realised in an immediate sale of the instruments.

32 Fair values of financial instruments (continued)

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented in note (b) below:

(i) the fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the statement of financial position date;

(ii) the fair value of variable rate financial instruments is assumed to approximate their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances from both the carrying amount and fair value;

(iii) the fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans; and

(iv) the fair value of forward exchange contracts and interest rate swaps is estimated by discounting future cash flows. Future cash flows are estimated based on model estimates of the amount it would receive or pay to terminate the contract at the statement of financial position date taking into account current market conditions and the current creditworthiness of the counterparties. The discount rate used is a market rate for a similar instrument at the statement of financial position date. The fair value of an option contract is determined by applying the binomial valuation model. Inputs are based on market related data at the statement of financial position date.

(b) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Company's financial instruments measured at the statement of financial position date on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. 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 unobservable inputs and validated models. Unobservable inputs are inputs for which market data are not available.

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

32 Fair values of financial instruments (continued)

The Company has a team headed by the finance manager performing valuations for the financial assets which is categorised into three levels of the fair value hierarchy. A valuation report with analysis of changes in fair value measurement is prepared by the team at each annual reporting date.

	Fair value at 31 December 2021	*Fair value measurements as at 31 December 2021 categorised into*			*Fair value at 31 December 2020*	*Fair value measurements as at 31 December 2020 categorised into*		
		Level 1	*Level 2*	*Level 3*		*Level 1*	*Level 2*	*Level 3*
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Recurring fair value measurements								
Assets								
Financial assets at fair value through profit or loss	70,018,943	57,026,846	12,453,430	538,667	72,348,003	71,652,003	-	696,000
Financial assets at fair value through other comprehensive income	44,065,706	3,498,650	40,567,056	-	38,819,529	36,440,049	-	2,379,480
Derivative financial instruments	159,242	-	159,242	-	130,136	-	130,136	-
	114,243,891	60,525,496	53,179,728	538,667	111,297,668	108,092,052	130,136	3,075,480
Liability								
Derivative financial instruments	36,853	-	36,853	-	10,425	-	10,425	-

32 Fair values of financial instruments (continued)

At 31 December 2021, FVOCI securities with a carrying amount of $149,870,776 were transferred from Level 1 to Level 2 due to a change in observability rules. The Company's policy is to recognise transfers between levels of fair value hierarchy as at the date of event or change in circumstances that caused the transfer. There were no transfers from Level 2 to Level 1 in 2021 and no transfers in either direction in 2020.

In general cases where external market prices of the financial assets carried at fair value are available, these items are classified as Level 2 unless trading volume and price transparency are sufficient enough to meet Level 1 requirement. Items valued using internally generated valuation techniques and models together with verifiable external parameters are classified as Level 2 assets.

Unobservable revaluation parameters or models to arrive the marked to market value would be determined as Level 3. In prior years, the Company will compare the internally generated fair value result as the independent third party rating report. Any significant variances in fair value are investigated and reassessed.

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2021		*2020*	
	Financial assets at Fair Value through Profit or Loss $'000	*Financial assets at Fair Value through Other Comprehensive Income* $'000	*Financial assets at Fair Value through Profit or Loss* $'000	*Financial assets at Fair Value through Other Comprehensive Income* $'000
At 1 January	696,000	2,379,480	650,000	2,174,523
Sales	-	(2,259,460)	-	-
Total gains or losses recognised in profit or loss	(157,333)	(128,538)	46,000	205,734
Net unrealised gain or losses recognised in other comprehensive income	-	8,518	-	(777)
At 31 December	538,667	-	696,000	2,379,480
Total gains or losses for the year included in the profit or loss for assets held at the statement of financial position date	(157,333)	(128,538)	46,000	205,734

32 Fair values of financial instruments (continued)

Information about significant unobservable inputs in Level 3 valuations:

	Valuation technique	***Significant unobservable input(s)***	***Range***
Unlisted equity instruments at FVTPL	Market approach (31 Dec 2020: Calibrated precedent transaction approach)	Recent transaction price (31 Dec 2020: Earnings multiple)	52.87 (31 Dec 2020: 11.50)

(c) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Company's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2020 and 2021.

(d) Effect of changes in significant non-observable assumptions to reasonably possible alternatives

The fair values of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair values of level 3 financial instruments to reasonably possible alternative assumptions due to parallel movement of plus or minus 10% of the fair value.

	Effect on other comprehensive income	
	Favourable $'000	*Unfavourable* $'000
2021		
Assets		
Financial assets measured at fair value through profit or loss	53,867	(53,867)
Financial assets measured at fair value through other comprehensive income	-	-
2020		
Assets		
Financial assets measured at fair value through profit or loss	69,600	(69,600)
Financial assets measured at fair value through other comprehensive income	237,948	(237,948)

33 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 banking business including lending, acceptance and placement of inter-bank deposits, correspondent banking transactions and off-balance sheet transactions. The transactions were priced at the relevant market rates at the time of each transaction.

The amount 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*	
	2021	*2020*	*2021*	*2020*	*2021*	*2020*
	$'000	$'000	$'000	$'000	$'000	$'000
Interest income	-	-	774,249	756,611	1,086	2,365
Interest expense	-	-	(326,854)	(393,532)	-	(12)
Fee and commission income	-	-	715,941	708,297	166,107	203,834
Operating expenses	-	-	(1,541,134)	(1,305,345)	(298,052)	(204,821)
For the year ended 31 December	-	-	(377,798)	(233,969)	(130,859)	1,366
Placement of deposits						
At 1 January	-	-	68,360,277	49,672,632	531,882	380,489
At 31 December	-	-	64,285,351	68,360,277	616,671	531,882
Acceptance of deposits						
At 1 January	-	-	49,731,929	30,158,731	312,970	396,933
At 31 December	-	-	46,429,581	49,731,929	317,202	312,970
Cash and balances with banks and other financial institutions						
At 1 January	-	-	2,326,879	1,436,712	-	-
At 31 December	-	-	3,459,963	2,326,879	-	-
Other assets						
At 1 January	-	-	1,250,389	1,007,456	12,495	28,745
At 31 December	-	-	1,152,300	1,250,389	6,295	12,495
Other liabilities						
At 1 January	12,663	11,310	209,165	171,002	9,607	31,845
At 31 December	11,264	12,663	193,630	209,165	6,479	9,607

33 Material related party transactions (continued)

(b) Key management personnel emoluments

Emoluments for key management personnel, including amounts paid to the Company's directors as disclosed in note 8 are as follows:

	2021 $'000	2020 $'000
Short-term employee benefits	45,521	53,474
Post-employment benefits	2,499	2,590
Share-based payments	4,406	4,090
	52,426	60,154

Total emoluments are included in "staff costs" (see note 7(a)).

Amounts disclosed include emoluments totalling $18,587,575 (2020: $22,137,836) 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, emoluments totalling $722,145 (2020: $836,545) to certain key management personnel who provided services to group companies of the Company were paid by the Company. The Company did not receive reimbursement from group companies.

(c) Loans to directors

Loans to directors of the Company disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2021 $'000	2020 $'000
Aggregate amount of relevant loans made by the Company outstanding at 31 December	46,540	67,149
Maximum aggregate amount of relevant loans made by the Company outstanding during the year	68,821	74,502

34 Immediate and ultimate holding company

At 31 December 2021 and 2020, the directors consider the immediate holding company to be Citigroup Holding (Singapore) Private Limited, which is incorporated in Singapore. This entity does not produce financial statements available for public use. Its ultimate holding company is considered to be Citigroup Inc., which is incorporated in the United States of America. Consolidated financial statements are prepared for Citigroup Inc. under generally accepted accounting principles in the United States. These financial statements are available for public use.

35 Accounting estimates and judgements

Key sources of estimation uncertainty

In determining the carrying amounts of some assets and liabilities, the Company makes assumptions in respect of the effects of uncertain future events on those assets and liabilities at the statement of financial position date. The Company's estimations and assumptions are based on historical experience and expectation of future events and are reviewed periodically.

(i) Impairment losses

Management exercises judgment in establishing the criteria for determining the credit risk of a financial asset has increased significantly since initial recognition and determining inputs into the ECL measurement model, including the incorporation of forward-looking information. For the details of the ECL model, please refer to note 1(d)(vii).

(ii) Bonus points reserve

The Company determines an accrual for bonus points on credit card transactions based on certain assumptions relating to historical redemption rates of bonus points and the costs associated with each point. There is uncertainty that these assumptions will hold true in the future. These assumptions are reviewed periodically and are reviewed when necessary.

(iii) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the department that created them to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors would affect the reported fair value of financial instruments.

36 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2021

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Company.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Reference to the conceptual framework*	1 January 2022
Amendments to HKAS 16, *Property, plant and equipment: Proceeds before intended use*	1 January 2022
Amendments to HKAS 37, *Onerous Contracts - cost of fulfilling a contract*	1 January 2022
Annual improvements to HKFRSs 2018-2020 cycle	1 January 2022
Amendments to HKAS 1, *Classification of liabilities as current or non-current*	1 January 2023

The Company is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.

Unaudited supplementary information

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

(a) Capital adequacy ratio

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

	2021	*2020*
Common Equity tier I Capital Ratio as at 31 December	25.22%	24.47%
Tier I Capital Ratio as at 31 December	25.22%	24.47%
Total Capital Ratio as at 31 December	26.03%	25.19%

Countercyclical Capital Buffer Ratio

	2021	*2020*
Countercyclical Capital Buffer Ratio	0.97%	0.96%

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

Capital Conservation Buffer Ratio

Under the Banking (Capital) Rules, the capital conservation buffer ratios for calculating the Company's buffer level are 2.5% for 2021 and 2020.

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

Unaudited supplementary information (continued)

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

(b) Leverage ratio

	2021	*2020*
Leverage ratio	7.68%	7.60%

The disclosure on leverage ratio is computed on the same basis as specified in a notice from the HKMA in accordance with section 3C of the Capital Rules. The relevant disclosures pursuant to the Banking (Disclosure) Rules can be found in our website www.citibank.com.hk.

(c) Segmental information

(i) By class of business

The Company mainly provides financial services related to retail banking business.

(ii) By geographical area

No single country or geographic segment other than Hong Kong contributes 10% or more of the Company's assets, liabilities, profit or loss before taxation, total operating income or contingent liabilities and commitments.

Unaudited supplementary information (continued)

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

(c) Segmental information (continued)

(iii) International claims

The country risk exposures in the tables below are prepared in according to the location and types of the counterparties as defined by the HKMA under the Banking (Disclosure) Rules with reference to the HKMA's Return of International Banking Statistics. International claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk.

International claims attributable to individual countries or areas not less than 10% of the bank's total international claims, after recognised risk transfer, are shown as follows:

	2021				
			Non-bank private sector		
	Banks	*Official Sector*	*Non-bank Financial institutions*	*Non-financial private sector*	*Total*
	$'000	$'000	$'000	$'000	$'000
Developed countries	69,313,325	60,796,729	12,642,956	1,348,257	144,101,267
- of which United States	68,923,509	51,804,199	10,040,633	226,800	130,995,141

	2020				
			Non-bank private sector		
	Banks	*Official Sector*	*Non-bank Financial institutions*	*Non-financial private sector*	*Total*
	$'000	$'000	$'000	$'000	$'000
Developed countries	72,412,736	63,996,641	12,163,862	1,151,125	149,724,364
- of which United States	71,972,452	53,355,901	8,498,386	309,902	134,136,641

Unaudited supplementary information (continued)

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

(d) Further analysis on loans and advances to customers

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

	2021		2020	
	$'000	% of loans and advances covered by collateral or other security	$'000	% of loans and advances covered by collateral or other security
Loans and advances to customers for use in Hong Kong				
Industrial, commercial and financial				
- Property investment	2,394,784	100%	2,716,231	100%
- Wholesale and retail trade	3,325	72%	24,652	61%
- Manufacturing	2,143	100%	3,784	80%
- Others	4,000	86%	15,348	73%
Individuals				
- Loans for the purchase of other residential properties	76,496,019	100%	62,791,623	100%
- Credit card advances	12,619,584	-	12,320,965	-
- Others	26,869,155	80%	23,549,253	76%
	118,389,010		101,421,856	
Netting adjustment on account of foreign currency margin products	(341,996)		(408,530)	
Total loans and advances to customers for use in Hong Kong	118,047,014		101,013,326	
Loans and advances to customers for use outside Hong Kong	3,839	-	3,321	-
Total	118,050,853		101,016,647	

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

Unaudited supplementary information (continued)

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

(d) Further analysis on loans and advances to customers (continued)

The amount of overdue and impaired loans and advances to customers and respective collective impairment allowances in respect of loans and advances to industry sectors which constitute not less than 10% of the Company's total loans and advances to customers are shown as follows:

	2021					
	Overdue loans and advances to customers $'000	*Impaired loans and advances to customers* $'000	*Collective impairment allowances* $'000	*Specific impairment allowances* $'000	*New impairment allowances* $'000	*Advances written off during the year* $'000
Individuals						
- Loans for the purchase of other residential properties	4,086	4,086	1,921	-	(1,679)	-
- Credit card advances	24,789	24,789	209,498	24,670	156,926	211,038
- Others	2,754	26,720	50,642	2,422	36,802	49,766

	2020					
	Overdue loans and advances to customers $'000	*Impaired loans and advances to customers* $'000	*Collective impairment allowances* $'000	*Specific impairment allowances* $'000	*New impairment allowances* $'000	*Advances written off during the year* $'000
Individuals						
- Loans for the purchase of other residential properties	36,226	36,226	3,597	3	2,200	-
- Credit card advances	38,971	38,971	253,369	36,575	235,412	270,985
- Others	5,271	34,411	61,121	3,244	53,489	51,733

(ii) Loans and advances to customers analysed by geographical area

Loans and advances to customers by geographical area are classified according to the location of the counterparties. After taking into account the transfer of risk, there were no exposures to a single country outside Hong Kong exceeding 10% of the aggregate gross amount of loans and advances to customers as at the above respective reporting dates.

Unaudited supplementary information (continued)

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

(e) Overdue and rescheduled assets

(i) Overdue loans and advances to customers

	2021		2020	
	$'000	% of loans and advances to customers	$'000	% of loans and advances to customers
Loans and advances to customers which have been overdue for periods of:				
- 6 months or less but over 3 months	31,629	0.03%	54,525	0.05%
- 1 year or less but over 6 months	-	0.00%	1,995	0.00%
- over 1 year	-	0.00%	23,948	0.02%
	31,629	0.03%	80,468	0.07%
Current market value of collateral held against the covered portion of overdue loans and advances to customers	14,794		104,625	
Covered portion of overdue loans and advances to customers	4,086		36,226	
Uncovered portion of overdue loans and advances to customers	27,543		44,242	
	31,629		80,468	
Specific impairment	19,748		32,777	

Unaudited supplementary information (continued)

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

(e) Overdue and rescheduled assets (continued)

The covered portion of overdue loans and advances to customers represents the amount of collateral held against outstanding balances. Where collateral values are greater than gross loans and advances, only the amount of collateral up to the gross loans and advance was included.

The collateral held in respect of the overdue loans and advances mainly consists of properties.

After taking into account the transfer of risk, there were no exposures to a single country outside Hong Kong exceeding 10% of the aggregate overdue loans and advances to customers as at the above respective reporting dates.

(ii) Rescheduled loans and advances to customers

	2021		*2020*	
	$'000	*% of loans and advances to customers*	$'000	*% of loans and advances to customers*
Rescheduled loans and advances to customers	23,966	0.02%	29,140	0.03%

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or because of the inability of the borrower to meet the original repayment schedule. Rescheduled loans and advances to customers are stated net of any loans and advances which have subsequently become overdue for over three months and which are included in overdue loans and advances to customers in part (e)(i).

Unaudited supplementary information (continued)

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

(e) Overdue and rescheduled assets (continued)

(iii) Impaired loans and advances to customers

	2021		2020	
	$'000	*% of loans and advances to customers*	$'000	*% of loans and advances to customers*
Overdue loans and advances to customers	31,629	0.03%	80,468	0.07%
Rescheduled loans and advances to customers	23,966	0.02%	29,140	0.03%
Impaired loans and advances to customers	55,595	0.05%	109,608	0.10%

After taking into account the transfer of risk, there were no exposures to a single country outside Hong Kong exceeding 10% of the aggregate impaired loans and advances to customers as at the above respective reporting dates.

There were no advances to banks or other assets which were overdue for over three months as at 31 December 2021 and 31 December 2020, nor were there any rescheduled advances to banks and other financial institutions.

(f) Repossessed assets

	2021	*2020*
	$'000	$'000
Repossessed assets	-	-

Assets acquired in exchange for the release in full or in part of the obligations of the borrowers due to restructuring or the inability of borrowers to repay, are recorded as "Other assets" in the statement of financial position at the lower of net realisation value and the carrying amount of the asset (net of any impairment allowance), until the assets are realised.

Unaudited supplementary information (continued)

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

(g) Mainland Activities

The following analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the Hong Kong Monetary Authority under the Banking (Disclosure) Rules with reference to the Hong Kong Monetary Authority Return of Mainland Activities.

	2021		
	On-balance sheet exposures $'000	*Off-balance sheet exposures* $'000	*Total exposures* $'000
Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	-	-	-
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	1,763,289	751,202	2,514,491
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	495	-	495
Other counterparties where the exposures are considered by exposures the reporting institution to be non-bank Mainland China exposures	10,419	-	10,419
	1,774,203	751,202	2,525,405

Total assets after provision	312,588,617
On-balance sheet exposures as percentage of total assets	0.57%

Unaudited supplementary information (continued)

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

(g) Mainland Activities (continued)

	2020		
	On-balance sheet exposures $'000	*Off-balance sheet exposures* $'000	*Total exposures* $'000
Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	-	-	-
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	2,048,535	858,141	2,906,676
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	525	-	525
Other counterparties where the exposures are considered by exposures the reporting institution to be non-bank Mainland China exposures	10,232	-	10,232
	2,059,292	858,141	2,917,433
Total assets after provision	295,487,302		
On-balance sheet exposures as percentage of total assets	0.70%		

Unaudited supplementary information (continued)

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

(h) Additional disclosures on credit risk management

(i) Capital requirement 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 analysed as follow:

	2021 $'000	*2020* $'000
Classes of exposures:		
Sovereign	-	-
Public sector entity	80,069	34,407
Bank	2,580,559	2,753,429
Corporate	36	1,533
Cash items	290	145
Regulatory retail	1,275,999	1,172,360
Residential mortgage loans	2,450,461	2,092,795
Other exposure which are not past due	416,722	399,545
Past due	7,144	9,647
Total capital requirements for on-balance sheet exposures	6,811,280	6,463,861
Classes of exposures:		
Trade-related contingencies	-	-
Forward forward deposits placed	1	14,429
Other commitments	28,566	27,112
Exchange rate contracts	13,125	5,859
Commodity-related derivative contracts	3	-
Total capital requirements for off-balance sheet exposures	41,695	47,400

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.

Unaudited supplementary information (continued)

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

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

(ii) Capital charge for operational risk

The capital charge for operational risk calculated in accordance with the standardized (operational risk) approach at the statement of financial position date is:

	2021	*2020*
	$'000	$'000
Capital charge for operational risk	866,531	917,945

(iii) Credit risk exposures

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

Unaudited supplementary information (continued)

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

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

An analysis of the credit risk of the Company by class of exposures at the statement of financial position date is as follows:

	2021							
	Total exposures	*After credit risk mitigation*		*Risk-weighted amounts*		*Total risk-weighted amounts*	*Total exposure covered by recognised collateral*	*Total exposure covered by recognised guarantees or credit derivatives contracts*
		Rated	*Unrated*	*Rated*	*Unrated*			
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
On-balance sheet								
Sovereign	116,931,547	116,932,967	-	-	-	-	-	-
Public sector entity	-	5,004,337	-	1,000,867	-	1,000,867	-	-
Multilateral Development Bank	-	-	-	-	-	-	-	-
Bank	69,272,103	68,655,240	616,863	32,068,318	188,671	32,256,989	-	-
Corporate	853	-	447	-	447	447	-	406
Cash items	502,176	-	502,176	-	3,624	3,624	-	-
Regulatory retail	30,753,417	-	21,266,655	-	15,949,991	15,949,991	9,485,749	1,013
Residential mortgage loans	78,649,247	-	73,644,909	-	30,630,764	30,630,764	-	5,004,338
Other exposures which are not past due	11,939,803	-	5,209,021	-	5,209,021	5,209,021	6,730,782	-
Past due	60,902	-	60,902	-	89,305	89,305	-	-
Off-balance sheet								
Trade-related contingencies	-	-	-	-	-	-	-	-
Forward forward deposits placed	47	-	47	-	9	9	-	-
Commitments that are unconditionally cancellable without prior notice	82,048,560	-	82,048,560	-	-	-	-	-
Other commitments	2,619,495	-	2,619,495	-	357,081	357,081	-	-
Exchange rate contracts	559,112	549,592	9,520	160,472	3,593	164,065	-	-
Commodity-related derivative contracts	94	-	94	-	32	32	-	-

Unaudited supplementary information (continued)

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

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

	2020							
	Total exposures	*After credit risk mitigation*		*Risk-weighted amounts*		*Total risk-weighted amounts*	*Total exposure covered by recognised collateral*	*Total exposure covered by recognised guarantees or credit derivatives contracts*
		Rated	*Unrated*	*Rated*	*Unrated*			
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
On-balance sheet								
Sovereign	109,378,600	109,384,566	-	-	-	-	-	-
Public sector entity	-	2,150,456	-	430,091	-	430,091	-	-
Multilateral Development Bank	-	-	-	-	-	-	-	-
Bank	72,758,052	72,226,050	532,002	34,311,092	106,769	34,417,861	-	-
Corporate	20,307	-	19,160	-	19,160	19,160	-	1,147
Cash items	512,606	-	512,606	-	1,816	1,816	-	-
Regulatory retail	27,772,037	-	19,539,332	-	14,654,500	14,654,500	8,227,885	4,820
Residential mortgage loans	65,153,643	-	63,003,188	-	26,159,943	26,159,943	-	2,150,455
Other exposures which are not past due	11,633,712	-	4,994,317	-	4,994,317	4,994,317	6,639,395	-
Past due	92,597	-	92,597	-	120,586	120,586	-	-
Off-balance sheet								
Trade-related contingencies								
Forward forward deposits placed	901,789	901,596	193	180,319	39	180,358	-	-
Commitments that are unconditionally cancellable without prior notice	81,254,645	-	81,254,645	-	-	-	-	-
Other commitments	2,447,938	-	2,447,938	-	338,896	338,896	-	-
Exchange rate contracts	327,992	209,652	75,282	64,491	8,742	73,233	43,058	-

The amount of credit exposures risk weighted at 1250% is nil (2020: nil).

Unaudited supplementary information (continued)

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

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

(iv) Counterparty credit risk-related exposures

The Company engages in over-the-counter ("OTC") derivative transactions that may result in counterparty credit risk. The OTC derivative transactions include (1) embedded derivatives of hybrid (combined) deposits to customers and (2) stand-alone derivatives.

Embedded derivatives of hybrid (combined) deposits

Positioned as a single product, a hybrid (combined) deposit to customers generally consists of two components: an embedded derivative and a host cash deposit. The host cash deposit serves as a collateral over the terms of the transaction that fully mitigates the counterparty credit risks associated with the embedded derivative.

Stand-alone derivatives transactions

The Company participates in stand-alone derivative transactions predominately for managing its own exposures as part of its asset and liability management process. The derivative activities of this type are with group entities.

No internal capital for counterparty are considered necessary for the fully mitigated transactions and transactions with group entities.

An analysis of major classes of exposures by counterparty type for 2021 is as follows:

	Banks and other financial institutions $'000	*Others* $'000	*Total* $'000
Notional amounts	24,579,857	196,873	24,776,730
Credit equivalent amounts	556,204	3,002	559,206
Risk-weighted amounts	161,845	2,252	164,097

An analysis of major classes of exposures by counterparty type for 2020 is as follows:

	Banks and other financial institutions $'000	*Others* $'000	*Total* $'000
Notional amounts	17,831,010	1,954,633	19,785,643
Credit equivalent amounts	298,631	29,361	327,992
Risk-weighted amounts	70,156	3,077	73,233

Unaudited supplementary information (continued)

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

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

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

(v) Credit risk mitigation

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

For all facilities except instalment mortgages, non-revolving loan supported by recognised guarantee and margin finance not hitting the required conditions, it is the Company's policy that they should be reviewed at least on an annual basis, with the collateral (if any) being revalued during the review. Where facilities have been overdue and are tangibly secured, the collateral must be revalued at a minimum of once every month.

For mortgages, valuation on the mortgaged property must be updated at a minimum of once every year through the consistent use of real estate price indices. When the market is subject to significant changes in conditions, valuation should be updated more frequently. For accounts past due over 120 days, an updated valuation through a panel surveyor on the mortgaged property is required. An updated valuation must be obtained on an annual basis or earlier if there is reason to believe that the value of the mortgaged property has declined.

For margin and securities backed finance facilities, all collateral is subject to daily marked-to-market revaluation; and margin calls must be initiated if the equity position has deteriorated to the margin trigger level. The frequency of revaluation may be intensified under the volatile market scenario.

The main types of recognised collateral taken by the Company includes cash on deposit, real estate properties, units or shares in collective investment schemes and various recognised debt securities.

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

Unaudited supplementary information (continued)

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

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

(vi) Market risk

The Company has adopted the Standardized Approach in the calculation of the market risk capital charge.

	2021	*2020*
	$'000	$'000
Capital charge for:		
- Foreign exchange exposure	47,228	58,583

(vii) Equity exposures

	2021	*2020*
	$'000	$'000
Financial assets at fair value through profit or loss	538,667	696,000

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

Unaudited supplementary information (continued)

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

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

(viii) Currency risk

The net position in foreign currencies are disclosed when the individual currency constitutes not less than 10% of the total net position in all foreign currencies:

	2021	
	USD	*RMB*
Equivalent in HK$'000		
Spot assets	133,271,717	1,003,676
Spot liabilities	(109,822,957)	(2,711,973)
Forward purchases	132,313	2,281,165
Forward sales	(23,540,917)	(7,716)
Net long non-structural position	40,156	565,152

	2020	
	USD	*RMB*
Equivalent in HK$'000		
Spot assets	135,276,933	1,048,315
Spot liabilities	(120,136,553)	(2,605,576)
Forward purchases	336,937	2,274,836
Forward sales	(15,380,101)	(1,655)
Net long non-structural position	97,216	715,920

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

Unaudited supplementary information (continued)

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

(i) Corporate governance

The Company is a wholly-owned subsidiary of Citigroup Inc. and falls under the Citigroup corporate governance infrastructure. Under this structure, the Company is committed to high standards of corporate governance and its activities are monitored by the various committees which Citigroup has in place in Hong Kong and globally. In addition, the Board has established a number of specialised committees to assist in the Board's oversight of certain major functional areas. The Company has fully complied throughout the year with the guideline in the Supervisory Policy Manual CG-1 "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the HKMA.

Board committees

The Company has a number of committees under the Board including the Audit Committee, Risk Management Committee, Nomination and Remuneration Committee.

(i) Audit Committee

The Audit Committee meets regularly with the senior management of financial control, internal audit and compliance and the external auditors to consider the nature and scope of audit review and the effectiveness of the systems of internal control and compliance with local regulations. The Committee also discusses matters raised by the external auditors and ensures that all audit recommendations are implemented. The Committee comprises all Independent Non-Executive Directors of the Company.

(ii) Risk Management Committee

The Risk Management Committee assists the Board in fulfilling its oversight responsibility relating to the establishment and operation of a risk management system, including reviewing the adequacy of risk management practices for the material risks such as credit, market, liquidity, legal, compliance, regulatory, conduct, operational and franchise and reputational risks on a regular basis. The Committee is also mandated by the Board to oversee the operation of the Credit Forum, Asset and Liability Committee and Information Technology Management Forum.

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

Asset and Liability Committee

The Asset and Liability Committee is the decision-making group that is responsible for governing Liquidity Risk and Market Risk in the Accrual Book, and for monitoring and influencing the balance sheet, investment securities and capital management activities for the Company.

Unaudited supplementary information (continued)

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

(i) Corporate governance (continued)

Credit Forum

The Forum is a regular forum to identify, measure, manage credit risk and ensure business strategies are operating within the risk appetite. The Forum also ensures the retail lending activities are conducted in accordance to the requirements stipulated in the Company's policies and regulatory requirements. The Forum also ensures that the credit risk arising from the wholesale assets is managed in accordance with relevant policies of the Company.

Information Technology Management Forum

The Information Technology Management Forum has the overall information technology governance responsibilities covering all technology related matters including the establishment of a strategic information technology plan and provide guidance to the execution of the strategic plan, as well as governance and oversight of Technology risk (including cyber security) in line with applicable Citi policy and procedures, prevalent and applicable jurisdiction specific regulatory requirements around Technology (including Cyber Security).

(iii) Nomination and Remuneration Committee

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