



Citicorp International Limited
花旗國際有限公司

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

Citicorp International Limited ("the Company") is a restricted licence bank incorporated and domiciled in Hong Kong and has its registered office at 50/F, Champion Tower, 3 Garden Road, Central, Hong Kong.

Principal activities

The Company is principally engaged in the provision of banking support services to Citibank N.A., Hong Kong Branch. The Company also conducts merchant and investment banking businesses.

The Company is registered as a restricted licence bank under the Hong Kong Banking Ordinance and a registered institution under the Securities and Futures Ordinance to conduct Types 1, 4 and 6 regulated activities.

Share capital

Details of the movements in share capital of the Company during the financial year are set out in note 15 to the financial statements. The Company did not issue shares during the year.

Dividend

The Company paid an interim dividend of HK\$2,154,727,600 in respect of the year ended 31 December 2021 (2020: HK\$1,945,877,500).

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2021 (2020: HK\$Nil).

Directors

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

Steven Lo Wai Ming
David Bolton Russell
Rudolf Hitsch
Susan Kwek Ai Kheng
Jane Elizabeth Rees (aka Jane Dulson) (resigned on 28 August 2021)
Mark Fordyce Hart
Sally Lam

There being no provision in the Company's articles of association for the retirement of directors by rotation, the present directors continue in office for the ensuing year.

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' interests in transactions, arrangements or contracts

No transaction, arrangement or contract of significance to which the Company, or any of its holding company or fellow subsidiary 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 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 of Citigroup Inc. pursuant to the above stock award plan. During the year, the following directors acquired shares of common stock in Citigroup Inc. pursuant to the above stock award plan:

Steven Lo Wai Ming
David Bolton Russell
Rudolf Hitsch
Susan Kwek Ai Kheng
Jane Elizabeth Rees (aka Jane Dulson)
Mark Fordyce Hart

Apart from the foregoing, at no time during the year was the Company, or any of its holding or fellow subsidiary companies, 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.

Management contract

During the year, there subsisted contracts between the Company and Citibank, N.A. under which both companies provide management services to each other for a fee. No director of the Company had an interest in the above contracts.

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 45 to 50 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



Rudolf Hirsch
Hong Kong

25 APR 2022

Independent auditor's report to the member of Citicorp International Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of Citicorp International Limited ("the Company") set out on pages 7 to 44 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 ("HKSA") 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 Citicorp International 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 HKSAAs 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 HKSAAs, we exercise professional judgement and maintain professional skepticism 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.



**Independent auditor's report to the member of
Citicorp International 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

25 APR 2022

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

(Expressed in thousands of Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Interest income	4(a)	4,875	53,924
Interest expense	4(b)	-	(9)
Net interest income		4,875	53,915
Fee and commission income	5	4,550,488	4,643,631
Other (loss)/income	6	(2,980)	1,530
Operating income		4,552,383	4,699,076
Operating expenses	7	(2,351,335)	(2,086,161)
Profit before taxation		2,201,048	2,612,915
Income tax	9(a)	(357,987)	(452,290)
Profit for the year		1,843,061	2,160,625
Other comprehensive income for the year, net of tax:			
Item that will not be classified to profit or loss:			
Remeasurement of net defined benefit liabilities		(3,405)	78
Total comprehensive income		1,839,656	2,160,703

The notes on pages 12 to 44 form part of these financial statements.

Statement of changes in equity for the year ended 31 December 2021 (Expressed in thousands of Hong Kong dollars)

	Note	Share capital \$'000	Capital reserve \$'000	Retained profits \$'000	Total \$'000
Balance at 1 January 2020		187,556	73,415	6,641,033	6,902,004
Profit for the year		-	-	2,160,625	2,160,625
Other comprehensive income		-	-	78	78
Total comprehensive income for the year		-	-	2,160,703	2,160,703
Equity-settled share-based transactions		-	(55,596)	-	(55,596)
Dividends declared in respect of the current year	18	-	-	(1,945,878)	(1,945,878)
Balance at 31 December 2020 and 1 January 2021		187,556	17,819	6,855,858	7,061,233
Profit for the year		-	-	1,843,061	1,843,061
Other comprehensive income		-	-	(3,405)	(3,405)
Total comprehensive income for the year		-	-	1,839,656	1,839,656
Equity-settled share-based transactions		-	39,454	-	39,454
Dividends declared in respect of the current year	18	-	-	(2,154,727)	(2,154,727)
Balance at 31 December 2021		187,556	57,273	6,540,787	6,785,616

The notes on pages 12 to 44 form part of these financial statements.

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

	Note	2021 \$'000	2020 \$'000
Operating activities			
Profit before taxation		2,201,048	2,612,915
Adjustments for:			
Net interest income		(4,875)	(53,915)
Depreciation		106	20
Impairment (recovery)/loss		(612)	1,097
Remeasurement of net defined benefit liabilities		(3,405)	78
Share-based payment transactions		48,086	(60,503)
		<u>2,240,348</u>	<u>2,499,692</u>
(Increase)/decrease in operating asset			
Other assets		<u>(15,974)</u>	<u>29,496</u>
Increase/(decrease) in operating liabilities			
Other liabilities		963	80,489
Defined benefit liabilities		<u>3,376</u>	<u>(2,554)</u>
		<u>4,339</u>	<u>77,935</u>
Cash generated from operations		2,228,713	2,607,123
Tax paid			
- Hong Kong Profits Tax paid		(565,941)	(785,526)
- Overseas tax paid		<u>(839)</u>	<u>(1,263)</u>
Net cash generated from operating activities		<u>1,661,933</u>	<u>1,820,334</u>

Cash flow statement

for the year ended 31 December 2021 (continued)

(Expressed in thousands of Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Investing activities			
Payment for purchase of plant and equipment		(327)	(92)
Interest received		4,742	61,220
		<u>4,415</u>	<u>61,128</u>
Net cash generated from investing activities		<u>4,415</u>	<u>61,128</u>
Financing activities			
Dividend paid	18	(2,154,727)	(1,945,878)
Interest paid		-	(9)
		<u>(2,154,727)</u>	<u>(1,945,887)</u>
Net cash used in financing activities		<u>(2,154,727)</u>	<u>(1,945,887)</u>
Net decrease in cash and cash equivalents		(488,379)	(64,425)
Cash and cash equivalents at 1 January	17	7,873,186	7,937,611
Cash and cash equivalents at 31 December	17	<u>7,384,807</u>	<u>7,873,186</u>

The notes on pages 12 to 44 form part of these financial statements.

Notes to the financial statements

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

1 Principal activities

The Company is principally engaged in the provision of banking support services to Citibank N.A., Hong Kong Branch. The Company also conducts merchant and investment banking businesses.

The Company is registered as a restricted licence bank under the Hong Kong Banking Ordinance and a registered institution under the Securities and Futures Ordinance to conduct Types 1, 4 and 6 regulated activities.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and 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 new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 3 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 2(g)(iii)).

2 Significant accounting policies (continued)

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.

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 a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 22.

(c) *Financial instruments*

(i) Initial recognition

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

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

(ii) Classification

A financial 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.

2 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.

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

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

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

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

2 Significant accounting policies (continued)

Reclassifications

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

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

Financial liabilities

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

(iii) Derecognition

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

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

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

(iv) Offsetting

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

2 Significant accounting policies (continued)

(v) Credit losses and impairment of assets

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

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

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

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

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

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

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

Measurement of ECLs

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

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

Credit-impaired financial assets

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

2 Significant accounting policies (continued)

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

- significant financial difficulty of the borrower or issuer,
- a breach of contract such as a default or being more than 90 days past due; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation

Presentation of allowance for ECLs in the statement of financial position

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

Write-off

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

(d) **Plant and equipment**

Plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated to write off the cost of items of furniture and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives of 3 to 10 years.

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

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

2 Significant accounting policies (continued)

(e) Impairment of non-financial assets

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

- plant and equipment; and
- other non-financial assets.

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

2 Significant accounting policies (continued)

(f) Cash equivalents

Cash equivalents are demand deposits with banks and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(g) Employee benefits

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

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

(ii) Defined benefit retirement 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 end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligations.

Remeasurements arising from defined benefit retirement plans are 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)).

2 Significant accounting policies (continued)

(iii) Share-based payments

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

(iv) 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.

(h) *Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly 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 statement of financial position date, and any adjustment to tax payable in respect of previous years.

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

2 Significant accounting policies (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be 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.

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.

2 Significant accounting policies (continued)

(i) 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.

(j) Revenue recognition

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

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

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

(i) Fee and commission income

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

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

2 Significant accounting policies (continued)

(ii) Interest income

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

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset.

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

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

(k) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the 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 measured.

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

2 Significant accounting policies (continued)

(I) Related parties

- (1) A person, or a close member of that person's family, is related to the Company if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or the Company's parent.
- (2) An entity is related to the Company if any of the following conditions applies:
 - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.
 - (vi) The entity is controlled or jointly controlled by a person identified in (1).
 - (vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management services to the Company or the Company's parent.

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

3 Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Company.

None of the developments have had a material effect on how the Company's results and financial position for the current or prior periods have been prepared or presented. The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 Interest income and interest expense

(a) Interest income

	2021 \$'000	2020 \$'000
Interest income on placements with banks	<u>4,875</u>	<u>53,924</u>

(b) Interest expense

	2021 \$'000	2020 \$'000
Interest expense on deposits and balances of banks	<u>-</u>	<u>9</u>

5 Fee and commission income

	2021 \$'000	2020 \$'000
Agency and servicing fees	132,073	118,822
Banking support services fees	<u>4,418,415</u>	<u>4,524,809</u>
	<u>4,550,488</u>	<u>4,643,631</u>

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

6 Other (loss)/income

	2021 \$'000	2020 \$'000
(Loss)/gain on foreign exchange	(2,980)	1,530
	<u>(2,980)</u>	<u>1,530</u>

7 Operating expenses

	2021 \$'000	2020 \$'000
Staff costs		
- Salaries and other staff costs	1,337,107	1,278,344
- Amount recognised in respect of defined benefit plan, contributions to defined contribution plan and Mandatory Provident Fund Scheme	64,890	64,178
- Equity-settled share-based payment expenses	90,670	79,679
Premises and equipment expenses		
- Depreciation	106	20
- Rent and rates	148,003	139,738
- Others	2	26
Auditors' remuneration	868	591
Communication expenses	3,904	4,507
Market data expenses	44,775	43,128
Membership expenses	12	229
Management and services fees	521,940	393,094
Computer processing services expenses	1,043	1,733
Others	138,015	80,894
	<u>2,351,335</u>	<u>2,086,161</u>

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	320	57
Salaries, allowances and benefits in kind	6,940	7,168
Discretionary bonuses	9,383	12,498
Share-based payments	4,783	4,473
Retirement scheme contributions	300	394
	<u>21,726</u>	<u>24,590</u>

9 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	358,155	442,465
(Over)/under-provision in respect of prior years	<u>(1,743)</u>	<u>9,947</u>
	356,412	452,412
Current tax - Overseas		
Provision for the year	839	1,263
Deferred tax		
Origination and reversal of temporary differences	<u>736</u>	<u>(1,385)</u>
	<u>357,987</u>	<u>452,290</u>

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. Taxation arising from overseas business is charged at the appropriate current rates of taxation ruling in relevant countries.

9 Taxation (continued)

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

	2021 \$'000	2020 \$'000
Profit before taxation	2,201,048	2,612,915
Notional tax on profit before tax	363,173	431,131
Tax effect of non-deductible expenses	-	-
Tax effect of other adjustments	(3,443)	11,212
(Over)/under-provision in prior years	(1,743)	9,947
Actual tax expense	357,987	452,290

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

	2021 \$'000	2020 \$'000
Provision for Hong Kong Profits Tax for the year	358,155	442,465
Provision for Hong Kong Profits Tax carried forward from prior year	6,989	-
Provisional Profits Tax paid	(433,743)	(301,535)
Taxation (recoverable)/payable	(68,599)	140,930

(d) Deferred tax assets and 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:

	Depreciation in excess of the related depreciation allowances \$'000	Timing difference on share-based payment transactions \$'000	Others \$'000	Total \$'000
Deferred tax arising from:				
At 1 January 2020	(18)	14,505	4,336	18,823
Credited/(charged) to the statement of profit or loss and other comprehensive income	(17)	4,626	(3,223)	1,386
Credited / (charged) to reserve	-	2,136	-	2,136
At 31 December 2020	(35)	21,267	1,113	22,345
At 1 January 2021	(35)	21,267	1,113	22,345
Credited/(charged) to the statement of profit or loss and other comprehensive income	(27)	2,420	(3,129)	(736)
Credited / (charged) to reserve	-	(7,160)	-	(7,160)
At 31 December 2021	(62)	16,527	(2,016)	14,449

10 Balances with bank

	2021 \$'000	2020 \$'000
Balances with banks - on demand	2,695,831	2,550,841
Placements with banks maturing within one month	5,000,000	5,500,000
Less: Impairment allowances	(500)	(1,114)
	<u>7,695,331</u>	<u>8,049,727</u>

11 Equity-settled share-based transactions

The Company participates in a number of Citigroup share-based incentive plans to attract, retain and motivate employees, to provide incentives for their contributions to the long-term performance and growth of the Company, and to encourage employee stock ownership.

Capital Accumulation programme ("CAP")

The Company participates in the Citigroup Capital Accumulation Programme ("CAP"), under which shares of Citigroup common stock are awarded in the form of restricted or deferred stock to participating employees. Generally CAP awards of restricted or deferred stock constitute a percentage of annual incentive compensation and vest ratably over a three or four year period beginning on or about the first anniversary of the award date. Continuous employment within Citigroup is generally required to vest in CAP. The programme provides that employees who meet certain age plus years-of-service requirements (retirement-eligible employees) may terminate active employment and continue vesting in their awards provided they comply with specified non-compete provisions. Awards granted to retirement-eligible employees are accrued in the year prior to the grant date in the same manner as cash incentive compensation is accrued. During the applicable vesting period, the shares awarded cannot be sold or transferred by the participant, and the award is subject to cancellation if the participant's employment is terminated. After the award vests, the shares become freely transferable. From the date of award, the recipient of a restricted stock award can direct the vote of the shares and receive regular dividends to the extent dividends are paid on Citigroup common stock. Recipients of deferred stock awards receive dividend equivalents to the extent dividends are paid on Citigroup common stock, but cannot vote.

Stock awards granted generally vest 25% per year over four years. For the CAP granted up to 2008, CAP participants were able to receive all or part of their award in stock options.

Information with respect to current year stock awards under CAP is as follows:

	2021	2020
Shares awarded	140,892	107,023
Weighted average fair market value per share (US\$)	64.29	78.91

Summary of share-based transactions

	2021 \$'000	2020 \$'000
After-tax compensation charged to earnings	75,709	66,532
Total carrying amount of share-based transaction liability	<u>100,164</u>	<u>128,893</u>

11 Equity-settled share-based transactions (continued)

Fair value assumptions

The fair value of a share award is based on the average of closing prices of Citigroup Inc. common stock on the New York Stock Exchange ("NYSE") for five trading days immediately preceding the award date.

12 Plant and equipment

	<i>Furniture and equipment</i>	
	<i>2021</i>	<i>2020</i>
	<i>\$'000</i>	<i>\$'000</i>
Cost:		
At 1 January	2,734	6,927
Additions	327	92
Write-offs	(21)	(2,204)
Transfer	-	(2,081)
At 31 December	<u>3,040</u>	<u>2,734</u>
Accumulated depreciation:		
At 1 January	2,410	4,594
Charge for the year	106	20
Write-offs	(21)	(2,204)
At 31 December	<u>2,495</u>	<u>2,410</u>
Net book value	<u>545</u>	<u>324</u>

13 Other assets

	<i>2021</i>	<i>2020</i>
	<i>\$'000</i>	<i>\$'000</i>
Accrued interest	210	77
Accounts receivable	29,150	14,190
Prepaid expenses	2,246	1,133
Others	646	747
	<u>32,252</u>	<u>16,147</u>

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

14 Other liabilities

	2021 \$'000	2020 \$'000
Reserve for expenses	401,885	399,806
Payable for equity-settled share-based payment	100,164	128,893
Others	199,587	170,502
	<u>701,636</u>	<u>699,201</u>

15 Share capital

	2021		2020	
	No. of shares	Amount \$'000	No. of shares	Amount \$'000
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	<u>187,556,200</u>	<u>187,556</u>	<u>187,556,200</u>	<u>187,556</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

16 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 2(g)(iii).

17 Cash and cash equivalents in the cash flow statement

(a) Reconciliation of cash and cash equivalents with the statement of financial position

	2021 \$'000	2020 \$'000
Balances with banks	2,695,831	2,550,841
Placements with banks with original maturity within three months	<u>5,000,000</u>	<u>5,500,000</u>
	7,695,831	8,050,841
Less: Overdrafts	<u>(311,024)</u>	<u>(177,655)</u>
Cash and cash equivalents in the cash flow statement	<u>7,384,807</u>	<u>7,873,186</u>

17 Cash and cash equivalents in the cash flow statement (continued)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Company's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities.

	2021 \$'000	2020 \$'000
At 1 January	-	-
Interest expense	-	9
Interest paid	-	(9)
	<hr/>	<hr/>
At 31 December	<hr/>	<hr/>

18 Dividends

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

	2021 \$'000	2020 \$'000
Interim dividend declared and paid of \$11.49 per ordinary share (2020: 10.37)	<hr/>	<hr/>
	2,154,727	1,945,878

19 Financial risk management

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

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

19 Financial risk management (continued)

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. The Internal Audit also perform regular audits to ensure compliance with the policies and procedures.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risks, and the Company's management of capital.

(a) Credit risk management

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

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
Balances with banks	7,695,331	8,049,727
Other assets	32,252	16,147
	<u>7,727,583</u>	<u>8,065,874</u>

(b) Market risk management

Market risk arises on all market risk sensitive financial instruments, including securities, foreign exchange contracts, interest rate derivatives, etc. The objective of market risk management is to avoid adverse financial effects from market volatilities.

The Treasury Department manages risks arising from balance sheet against the limits approved by the Regional Market / Treasury Risk Management, and monitored and reported by an independent Operations unit.

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 risk position is monitored periodically and any exceptions would be reviewed and escalated to appropriate level of risk manager and governance forum.

19 Financial risk management (continued)

(i) Currency risk

The Company is exposed to currency risks primarily arising from financial instruments that are denominated in the United States dollar ("USD"). As the Hong Kong dollar ("HKD") is pegged to the USD, the Company considers the risk of movements in exchange rates between the HKD and the USD to be insignificant.

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

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

	2021 \$'000	2020 \$'000
United States dollars		
Spot assets	299,942	47,133
Spot liabilities	(564,362)	(457,275)
Net short position	<u>(264,420)</u>	<u>(410,142)</u>

(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 Regional and Country Treasury Risk organization, Asset and Liability Committee (ALCO) and the Board. 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.

19 Financial risk management (continued)

IRRBB regulatory reporting and monitoring is done on a quarterly basis. IRRBB measures from this return, 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, Country 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 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.

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

Quantitative Disclosure

Template IRRBB1: Quantitative information on interest rate risk in banking book

This table provides information on the change in economic value of equity ("EVE") and change in net interest income ("NII") over next 12 months under each of the prescribed interest rate shock scenario 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 31st December 2021, and comparative figures versus prior year are as follows:

19 Financial risk management (continued)

Period: 31st December 2021

(in HKD million)		change in EVE	change in NII
1	Parallel up	5	(141)
2	Parallel down	-	144
3	Steepener	-	
4	Flattener	3	
5	Short rate up	5	
6	Short rate down	-	
7	Maximum	5	144
8	Tier 1 capital		6,771

Period: 31st December 2020

(in HKD million)		change in EVE	change in NII
1	Parallel up	6	(150)
2	Parallel down	-	152
3	Steepener	-	
4	Flattener	6	
5	Short rate up	7	
6	Short rate down	-	
7	Maximum	7	152
8	Tier 1 capital		7,039

(c) Liquidity risk

The purpose of liquidity management is to ensure sufficient cash flows to meet all financial commitments and to capitalise on opportunities for business expansion. This includes the Company's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise.

Liquidity is managed on a daily basis by the Treasury Teams under the direction of the Country Asset and Liability Committee ("ALCO") and in accordance with the Quarterly Liquidity Review Process (Horizontal Review), which is jointly reviewed and approved by Country Risk Manager and ALCO. The Treasury Teams are responsible for ensuring that the Company has adequate liquidity for all operations, and monitoring local and international markets for the adequacy of funding and liquidity.

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

19 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			
	<i>Total</i> \$'000	<i>Repayable on demand</i> \$'000	<i>1 month or less</i> \$'000	<i>Undated or overdue</i> \$'000
Assets				
Balances with banks	7,695,331	2,695,831	4,999,500	-
Fixed assets	545	-	-	545
Deferred tax assets	14,449	-	-	14,449
Current tax recoverable	68,599	-	-	68,599
Other assets	32,252	-	29,150	3,102
Total assets	<u>7,811,176</u>	<u>2,695,831</u>	<u>5,028,650</u>	<u>86,695</u>
Liabilities				
Deposits and balances of banks	311,024	311,024	-	-
Defined benefit liabilities	12,900	-	-	12,900
Other liabilities	701,636	-	-	701,636
Total liabilities	<u>1,025,560</u>	<u>311,024</u>	<u>-</u>	<u>714,536</u>
Asset-liability gap	<u>6,785,616</u>	<u>2,384,807</u>	<u>5,028,650</u>	<u>(627,841)</u>

19 Financial risk management (continued)

	2020			
	<i>Total</i> \$'000	<i>Repayable on demand</i> \$'000	<i>1 month or less</i> \$'000	<i>Undated or overdue</i> \$'000
Assets				
Balances with banks	8,049,727	2,550,841	5,498,886	-
Fixed assets	324	-	-	324
Deferred tax assets	22,345	-	-	22,345
Other assets	16,147	-	14,190	1,957
Total assets	<u>8,088,543</u>	<u>2,550,841</u>	<u>5,513,076</u>	<u>24,626</u>
Liabilities				
Deposits and balances of banks	177,655	177,655	-	-
Defined benefit liabilities	9,524	-	-	9,524
Current taxation	140,930	-	100,512	40,418
Other liabilities	699,201	-	-	699,201
Total liabilities	<u>1,027,310</u>	<u>177,655</u>	<u>100,512</u>	<u>749,143</u>
Asset-liability gap	<u>7,061,233</u>	<u>2,373,186</u>	<u>5,412,564</u>	<u>(724,517)</u>

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

19 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 of banks	311,024	311,024	311,024	-

	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 of banks	177,655	177,655	177,655	-

(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. Citi also recognizes the impact of operational risk on reputation risk associated with Citi's business activities.

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.

19 Financial risk management (continued)

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 Citi 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.

Citi'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

19 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 otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

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

Consistent with industry practice, the Company monitors its capital structure on the basis of the capital adequacy ratio and there have been no material changes in the Company's policy on the management of capital during the year, except for a change in the calculation methodology in the capital adequacy ratio as mentioned below.

The capital adequacy ratios as at 31 December 2021 and 2020 are computed on the basis as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Company has complied with all externally imposed capital requirements, with capital positions well above the minimum capital requirement set out 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.

20 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 normal course of its banking business. 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 \$'000	2020 \$'000	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Interest income	-	-	4,875	53,924	-	-
Interest expense	-	-	-	(9)	-	-
Fee and commission income	-	1	4,232,349	4,254,966	186,066	269,934
Operating expenses	-	-	(440,700)	(335,079)	(81,240)	(47,210)
	<u>-</u>	<u>1</u>	<u>3,796,524</u>	<u>3,973,802</u>	<u>104,826</u>	<u>222,724</u>

(b) Amounts outstanding with group companies

Included in the statement of financial position captions are balances due from and to group companies:

	Ultimate holding company		Intermediate holding company		Fellow subsidiaries	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Balances with banks	-	-	7,695,331	8,049,727	-	-
Other assets	-	-	947	915	8,451	1,625
Deposit and balances of banks	-	-	311,024	177,655	-	-
Other liabilities	<u>17,972</u>	<u>14,201</u>	<u>7,745</u>	<u>8,354</u>	<u>2,052</u>	<u>1,153</u>

20 Material related party transactions (continued)

(c) 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	16,643	19,723
Post-employment benefits	300	394
Share-based payments	4,783	4,473
	<u>21,726</u>	<u>24,590</u>

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

Amounts disclosed include emoluments totalling \$7,803,448 (2020: \$11,391,004) 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 \$6,657,895 (2020: \$7,532,271) to certain key management personnel who provided services to group companies of the Company were paid by the Company. The Company did not receive reimbursement from group companies.

(d) Loans to directors

Pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, the Company did not grant any loans to directors during the year (2020: Nil).

21 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.

22 Accounting estimates and judgements

Share-based payments

The current obligation under the share-based compensation plans is recorded at estimated fair value. The parameters incorporated into the valuation include both internal expectations of future performance of Citigroup Inc., which are based on management's assessment of current market conditions, as well as market expectations. In determining the final liability, the Company also estimates the number of forfeitures over the life of the plan based on management's expectation for future periods, which also considers past experience.

23 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.

	<i>Effective for accounting periods beginning on or after</i>
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
Amendments to HKAS 1, <i>Classification of Liabilities as Current or Non-current</i>	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, <i>Disclosure of accounting policies</i>	1 January 2023
Amendments to HKAS 8, <i>Definition of accounting estimates</i>	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 dollars unless otherwise indicated)

(a) Capital adequacy ratio

The Company's regulatory capital position as at 31 December was as follows:

	2021	2020
Common Equity Tier I (CET 1) capital ratio	<u>66.32%</u>	<u>69.52%</u>
Tier I Capital Ratio	<u>66.32%</u>	<u>69.52%</u>
Total Capital Ratio	<u>66.32%</u>	<u>69.52%</u>

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

Countercyclical Capital Buffer Ratio

	2021	2020
Countercyclical Capital Buffer Ratio	<u>0.91%</u>	<u>0.5%</u>

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

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/cil, covering a description of the main features, the full terms and conditions of the Company's capital instruments, a detailed breakdown of the Company's CET1 capital, AT1 capital, Tier 2 capital, regulatory deductions and a full reconciliation between the Company's accounting and regulatory statement of financial position.

Unaudited supplementary information (continued)

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

(b) Leverage ratio

	2021	2020
Leverage ratio	<u>86.85%</u>	<u>87.26%</u>

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

(c) Segmental information

(i) By geographical area

All profits and assets are booked in Hong Kong.

(ii) By class of business

	2021 \$'000	2020 \$'000
Banking support service fees	4,418,415	4,524,809
Others	<u>132,073</u>	<u>118,822</u>
	<u>4,550,488</u>	<u>4,643,631</u>

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

Unaudited supplementary information (continued) (Expressed in thousands of Hong Kong dollars 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-statement of financial position exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk.

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

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

<i>At 31 December 2021</i>					
			<i>Non-bank private sector</i>		
	<i>Banks</i>	<i>Official sector</i>	<i>Non-bank financial institutions</i>	<i>Non-financial private sector</i>	<i>Total</i>
Developed countries	394,270	-	1,110	1,070	396,450
- of which United States	394,180	-	30	160	394,370

<i>At 31 December 2020</i>					
			<i>Non-bank private sector</i>		
	<i>Banks</i>	<i>Official sector</i>	<i>Non-bank financial institutions</i>	<i>Non-financial private sector</i>	<i>Total</i>
Developed countries	54,860	-	700	1,590	57,150
- of which United States	54,770	-	30	-	54,800

Unaudited supplementary information (continued)

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

(d) Additional disclosures on credit risk management

(i) Capital requirements for credit risk

The capital requirements on each class of exposures calculated under the standardised (credit risk) approach at the statement of financial position date can be analysed as follows:

	2021 \$'000	2020 \$'000
Classes of exposures:		
Sovereign	4	-
Bank	123,311	128,866
Securities Firm	5	6
Corporate	1,492	900
Collective Investment Scheme	24	14
Other exposures which are not past due	5,763	176
	<hr/>	<hr/>
Total capital requirements for on-statement of financial position exposures	130,599	129,962
	<hr/>	<hr/>

The capital requirement is made by multiplying the Company's risk-weighted amount derived from the relevant calculation approach by 8%. It does not reflect the Company's actual regulatory capital.

(ii) Capital charge for operational risk

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

	2021 \$'000	2020 \$'000
Capital charge for operational risk	686,228	680,064
	<hr/>	<hr/>

Unaudited supplementary information (continued)

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

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

(iii) Credit risk exposures

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

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

	2021					
	Total exposures \$'000	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk weighted amounts \$'000
		Rated \$'000	Unrated \$'000	Rated \$'000	Unrated \$'000	
On-statement of financial position:						
Sovereign	55	55	-	55	-	55
Bank	7,706,512	7,705,998	514	1,541,200	192	1,541,392
Corporate	18,083	3,976	14,107	4,539	14,107	18,646
Multinational Development Bank	103	103	-	-	-	-
Securities Firm	121	-	121	-	61	61
Collective Investment Scheme	317	39	278	20	278	298
Other exposures which are not past due	72,037	71,866	171	71,866	171	72,037
	2020					
	Total exposures \$'000	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk weighted amounts \$'000
		Rated \$'000	Unrated \$'000	Rated \$'000	Unrated \$'000	
On-statement of financial position:						
Sovereign	-	-	-	-	-	-
Bank	8,053,652	8,053,026	626	1,610,606	217	1,610,823
Corporate	11,040	2,495	8,545	2,710	8,545	11,255
Multinational Development Bank	-	-	-	-	-	-
Securities Firm	145	16	129	9	64	73
Collective Investment Scheme	271	197	74	99	74	173
Other exposures which are not past due	2,204	-	2,204	-	2,204	2,204

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

Unaudited supplementary information (continued)

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

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

(iv) Market risk

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

(e) Corporate governance

The Company is a wholly owned subsidiary of Citigroup Inc. ("Citigroup") and falls under the Citigroup corporate governance infrastructure. Under this structure, the Company is committed to high standards of corporate governance and its activities are monitored by the various committees which Citigroup has in place in Hong Kong and globally. The control framework of the Company also falls under the Citigroup control requirements. The Company's Board comprises a majority of Directors from Citigroup and one Independent Non-executive Director and board meetings are held as and when necessary. The Company has fully complied throughout the year with the applicable guidelines in the Supervisory Policy Manual CG-1 "Corporate Governance of Locally Incorporated Authorised Institutions" issued by HKMA.