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**Citicorp International Limited**

**Financial Information Disclosure Statement**

**2019 Annual**

**CITICORP INTERNATIONAL LIMITED**

We enclose herewith the Annual Disclosure Statements for the year ended December 31, 2019, which are prepared under the Banking (Disclosure) Rules made pursuant to Section 60A of the Banking Ordinance.

By Order of the Board

David Russell  
Director & Chief Executive  
April 29, 2020

**CITICORP INTERNATIONAL LIMITED**

The directors are pleased to announce the audited financial results (together with the unaudited supplementary information) of Citicorp International Limited (the "Company") for the year ended December 31, 2019.

**2019 Full Year Results**

- Operating income up 1% to HK\$ 4,473 million (HK\$ 4,429 million for 2018)
- Profit before taxation down 2% to HK\$ 2,425 million (HK\$ 2,476 million for 2018)
- Profit after taxation down 2% to HK\$ 2,032 million (HK\$ 2,070 million for 2018)

## Statement of profit or loss and othe comprehensive income

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

	<i>Note</i>	<i>2019</i>	<i>2018</i>
Interest income	3	112,952	75,098
Interest expense	4	<u>(8)</u>	<u>-</u>
<b>Net interest income</b>		<b>112,944</b>	<b>75,098</b>
Fee and commission income	5	4,358,690	4,354,602
Other income/(loss)	6	<u>1,468</u>	<u>(602)</u>
<b>Operating income</b>		<b>4,473,102</b>	<b>4,429,098</b>
- Staff costs		<span style="border: 1px solid black; padding: 2px;">(1,302,046)</span>	<span style="border: 1px solid black; padding: 2px;">(1,246,214)</span>
- Premises & equipment expenses		(143,757)	(143,641)
- Depreciation expenses		(76)	(104)
- Other operating expenses		<span style="border: 1px solid black; padding: 2px;">(602,008)</span>	<span style="border: 1px solid black; padding: 2px;">(563,120)</span>
<b>Operating expenses</b>		<b><u>(2,047,887)</u></b>	<b><u>(1,953,079)</u></b>
<b>Profit for the year</b>		<b>2,425,215</b>	<b>2,476,019</b>
Taxation	7	<u>(393,487)</u>	<u>(405,747)</u>
<b>Profit after tax</b>		<b>2,031,728</b>	<b>2,070,272</b>
<b>Other comprehensive income for the year, net of tax</b>			
Item that will not be classified to profit or loss:			
- Remeasurement of net defined benefit liabilities		290	300
<b>Total comprehensive income</b>		<b><u><u>2,032,018</u></u></b>	<b><u><u>2,070,572</u></u></b>

## Statement of financial position

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

	<i>Note</i>	<i>2019</i>	<i>2018</i>
<b>Assets</b>			
Balances with banks	8	8,006,755	7,610,531
Plant and equipment	9	2333	222
Deferred tax assets		18,823	23,290
Other assets		<u>50,858</u>	<u>42,188</u>
		<u>8,078,769</u>	<u>7,676,231</u>
<b>Liabilities</b>			
Deposits and balances of banks		69,161	-
Defined benefit liabilities		12,078	11,733
Current taxation		474,044	161,114
Other liabilities		<u>621,482</u>	<u>641,862</u>
		<u>1,176,765</u>	<u>814,709</u>
<b>Equity</b>			
Share capital		187,556	187,556
Reserves	10	<u>6,714,448</u>	<u>6,673,966</u>
		<u>6,902,004</u>	<u>6,861,522</u>
		<u>8,078,769</u>	<u>7,676,231</u>

## Cash flow statement

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

	<i>Note</i>	<i>2019</i>	<i>2018</i>
<b>Operating activities</b>			
Profit before taxation		2,425,215	2,476,019
Adjustments for:			
Net interest income		(112,944)	(75,098)
Depreciation		76	104
Impairment loss		(22)	39
Remeasurement of net defined benefit liabilities		290	300
Share-based payment transactions		46,583	(53,899)
		2,359,198	2,347,465
<b>(Increase) / decrease in operating assets:</b>			
Other assets		(6,291)	1,194,530
<b>Increase) / (decrease) in operating liabilities:</b>			
Other liabilities		(14,003)	(1,118,193)
Defined benefit liabilities		345	(2,658)
Deposits and balances of banks		69,161	(54,778)
		55,503	(1,175,629)
<b>Cash generated from operations</b>		2,408,410	2,366,366
Tax paid			
- Hong Kong Profits Tax paid		(81,253)	(377,853)
- Overseas tax paid		(2,493)	(1,137)
		(83,746)	(378,990)
<b>Net cash generated from operating activities</b>		2,324,664	1,987,376

## Cash flow statement (continued)

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

	<i>Note</i>	2019	2018
<b>Investing activities</b>			
Payment for purchase of plant and equipment		(2,187)	-
Interest received		110,573	72,298
<b>Net cash generated from investing activities</b>		108,386	72,298
<b>Financing activities</b>			
Dividend paid		(2,036,840)	(3,923,000.00)
Interest paid		(8)	-
<b>Net cash used in financing activities</b>		(2,036,848)	(3,923,000)
<b>Net (decrease)/increase in cash and cash equivalents</b>		396,202	(1,863,326)
<b>Cash and cash equivalents at 1 January</b>	11	7,610,570	9,473,896
<b>Cash and cash equivalents at 31 December</b>	11	8,006,772	7,610,570

## NOTES TO THE FINANCIAL STATEMENTS

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

### 1 Significant accounting policies

#### (a) *Statement of compliance*

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company.

#### (b) *Basis of preparation of the financial statements*

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

- obligations under share-based incentive plans (see note 1(g)(iii)).

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.



## 1 Significant accounting policies (continued)

### (c) *Financial instruments*

#### (i) Initial recognition

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

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

#### (ii) Classification

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

#### *Business model assessment*

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

## 1 Significant accounting policies (continued)

### (c) *Financial instruments (continued)*

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

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

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

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

#### *Reclassifications*

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

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

#### *Financial liabilities*

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

#### *(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.

## 1 Significant accounting policies (continued)

### (c) Financial instruments (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.

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

## 1 Significant accounting policies (continued)

### (c) *Financial instruments (continued)*

#### *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 in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(e)). Depreciation is calculated to write off the cost of items of furniture and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives of 3 to 10 years.

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

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

### (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).

## 1 Significant accounting policies (continued)

### (e) Impairment of non-financial assets (continued)

- 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.

### (f) Cash equivalents

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

### (g) Employee benefits

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

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

(ii) Defined benefit retirement plans obligation

The Company's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

## 1 Significant accounting policies (continued)

### (g) *Employee benefits (continued)*

#### (ii) Defined benefit retirement plans obligation (continued)

Service cost and net interest expense (income) on the net defined benefit liability (asset) are recognized in operating expenses. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognized as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognized. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligations.

Remeasurements arising from defined benefit retirement plans are recognized in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

#### (iii) Share-based payments

The Company participates in a number of Citigroup Inc. ("Citigroup") share-based incentive plans under which Citigroup grants shares to the Company's employees. Pursuant to a separate Stock Plans Affiliate Participation Agreement ("SPAPA"), the Company reimburses Citigroup for the fair value of the share based incentive awards delivered to the Company's employees under these plans. The Company accounts for these plans as equity-settled plans, with separate accounting for its associated obligations to make payments to Citigroup. The Company recognizes the fair value of the awards at grant date as compensation expense over the vesting period with a corresponding credit in equity as a capital contribution from Citigroup. The Company's liability to Citigroup under the SPAPA is remeasured annually until settlement date and any changes in value are recognized in equity.

#### (iv) Termination benefits

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

### (h) *Income tax*

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

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

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

## 1 Significant accounting policies (continued)

### (h) *Income tax (continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

## 1 Significant accounting policies (continued)

### (i) *Provisions and contingent liabilities*

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

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

### (j) *Revenue recognition*

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

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

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

#### (i) Fee and commission income

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

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



## 1 Significant accounting policies (continued)

### (j) Revenue recognition (continued)

#### (ii) Interest income

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

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 balance sheet date. Exchange gains and losses are recognized in the profit or loss.

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

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

## 1 Significant accounting policies (continued)

### (l) Related parties

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

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

## 2 Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS16, Leases, and 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.

**3 Interest income**

	2019	2018
Interest income on placements with banks	<u>112,952</u>	<u>75,098</u>

**4 Interest expense**

	2019	2018
Interest expense on deposits and balances of banks	<u>8</u>	<u>-</u>

**5 Fee and commission income**

	2019	2018
Agency and servicing fees	119,688	105,100
Banking support services fees	<u>4,239,002</u>	<u>4,249,502</u>
	<u>4,358,690</u>	<u>4,354,602</u>

**6 Other income**

	2019	2018
Gain / (loss) on foreign exchange	<u>1,468</u>	<u>(602)</u>

**7 Taxation**

	2019	2018
Current Tax - Hong Kong Profits Tax	394,183	405,326
Current Tax - Overseas	2,493	1,137
Deferred tax	<u>(3,189)</u>	<u>(716)</u>
	<u>393,487</u>	<u>405,747</u>

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year.

**8 Balances with banks**

	2019	2018
Balances with banks	1,506,772	1,210,570
Placement with banks maturing within one month	6,500,000	6,400,000
Less: Impairment allowances	<u>(17)</u>	<u>(39)</u>
	<u>8,006,755</u>	<u>7,610,531</u>

**9 Plant and equipment**

	2019	2018
	<i>Furniture and equipment</i>	<i>Furniture and equipment</i>
<i>Cost:</i>		
At January 1	4,800	4,800
Additions	2,187	-
Write-offs	(60)	-
	6,927	4,800
At December 31	6,927	4,800
<i>Accumulated depreciation:</i>		
At January 1	4,578	4,474
Charge for the year	76	104
Write-offs	(60)	-
	4,594	4,578
At December 31	4,594	4,578
<b>Net book value</b>	<b>2,333</b>	<b>222</b>

**10 Reserves**

	<i>Retained earnings</i>	<i>Capital Reserves</i>	<i>Total</i>
At January 1, 2018	8,498,284	76,683	8,574,967
Profit for the year	2,070,272	-	2,070,272
Dividend declared in respect of the current year	(3,923,000)		(3,923,000)
Other comprehensive income	300	-	300
Share-based payment transactions, net of tax	-	(48,573)	(48,573)
	6,645,856	28,110	6,673,966
At December 31, 2018	6,645,856	28,110	6,673,966
At January 1, 2019	6,645,856	28,110	6,673,966
Profit for the year	2,031,728	-	2,031,728
Dividend declared in respect of the current year	(2,036,840)		(2,036,840)
Other comprehensive income	290	-	290
Share-based payment transactions, net of tax	-	45,304	45,304
	6,641,034	73,414	6,714,448
At December 31, 2019	6,641,034	73,414	6,714,448

**10 Reserves (continued)**

*Nature and purpose of reserve*

Capital reserve

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

**11 Cash and cash equivalents in the cash flow statement**

	2019	2018
Balances with banks	1,506,772	1,210,570
Placements with banks with original maturity within 3 months	6,500,000	6,400,000
Cash and cash equivalents in the cash flow statement	8,006,772	7,610,570

**12 Financial risk management**

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

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

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

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

## 12 Financial risk management (continued)

### (a) Credit risk management

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

### (b) Market risk management

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

The Treasury Department manages interest rate risks within the limits approved by the Regional Market Risk Management, and monitored and reported by an independent Operations unit. It also reviews permitted product list, ensuring adherence to risk management objectives.

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

### (i) Currency risk

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

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

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

	<i>2019</i>	<i>2018</i>
<i>United States dollars</i>		
Spot assets	136,479	133,981
Spot liabilities	<u>(301,695)</u>	<u>(254,336)</u>
Net short position	<u><u>(165,216)</u></u>	<u><u>(120,355)</u></u>

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

## 12 Financial risk management (continued)

### (a) Market risk management (continued)

#### (ii) Interest rate risk

Interest Rate Risk 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 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, 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  $\Delta$ 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.

### (c) Liquidity risk

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

Liquidity is managed on a daily basis by the Treasury Department under the direction of the Country Asset and Liability Committee and in accordance with the Funding and Liquidity plan, which is jointly reviewed and approved by Regional Market Risk Management and the Head Office on an annual basis. The Treasury Department is responsible for ensuring that the Company has adequate liquidity for all operations, and monitoring local and international markets for the adequacy of funding and liquidity.

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



## 12 Financial risk management (continued)

### (c) Liquidity risk (continued)

#### Analysis of assets and liabilities by remaining maturity

The following maturity profile is based on the remaining period at the balance sheet date to the contractual maturity date.

2019	<u>Total</u>	<u>Repayable on demand</u>	<u>1 month or less</u>	<u>Undated or overdue</u>
<i>Assets</i>				
Balances with banks	8,006,755	1,506,772	6,499,983	-
Fixed assets	2,333	-	-	2,333
Deferred tax assets	18,823	-	-	18,823
Other assets	50,858	-	7,373	43,485
	<u>8,078,769</u>	<u>1,506,772</u>	<u>6,507,356</u>	<u>64,641</u>
<i>Liabilities</i>				
Deposits and balances of banks	69,161	69,161	-	-
Defined benefit liabilities	12,078	-	-	12,078
Current taxation	474,044	-	474,044	-
Other liabilities	621,482	-	-	621,482
	<u>1,176,765</u>	<u>69,161</u>	<u>474,044</u>	<u>633,560</u>
Net asset gap	<u>6,902,004</u>	<u>1,437,611</u>	<u>6,033,312</u>	<u>(568,919)</u>
2018	<u>Total</u>	<u>Repayable on demand</u>	<u>1 month or less</u>	<u>Undated or overdue</u>
<i>Assets</i>				
Balances with banks	7,610,531	1,210,570	6,399,961	-
Fixed assets	222	-	-	222
Deferred tax assets	23,290	-	-	23,290
Other assets	42,188	-	4,994	37,194
	<u>7,676,231</u>	<u>1,210,570</u>	<u>6,404,955</u>	<u>60,706</u>
<i>Liabilities</i>				
Deposits and balances of banks	-	-	-	-
Defined benefit liabilities	11,733	-	-	11,733
Current taxation	161,114	-	81,253	79,861
Other liabilities	641,862	-	-	641,862
	<u>814,709</u>	<u>-</u>	<u>81,253</u>	<u>733,456</u>
Net asset gap	<u>6,861,522</u>	<u>1,210,570</u>	<u>6,323,702</u>	<u>(672,750)</u>

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

## 12 Financial risk management (continued)

### *(d) Operational risk management*

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. It includes reputation and franchise risk associated with business practices or market conduct that the Company may undertake. Operational risk does not encompass strategic risk or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity, or insurance risk. Operational risk is inherent in the Company's business activities and is managed through an overall framework with checks and balances that include recognized ownership of the risk by the businesses and independent risk management oversight. The Company mitigates its operational risk by setting up its key controls and assessments according to Citigroup's and the Regulator's standards. They are also evaluated, monitored, and managed by its sound governance structure.

The Company's Self-Assessment and Operational Risk Framework includes the Operational Risk Management Policy and the Manager's Control Assessment Standards within the policy which defines the Company's approach to operational risk management. The objective of the policy is to establish a consistent approach to assess relevant risks and the overall control environment across the Company, to facilitate adherence to regulatory requirements and other corporate initiatives, including Operational Risk Management and alignment of capital assessments with risk management objectives.

While it is the business culture for every employee to have operational risk responsibility and awareness in their daily operations, those operational risk focuses are coordinated through independent operational risk management and control functions (including Legal and Compliance). Significant operational events and risks are monitored in the Business Risk, Compliance & Control Committee and the Board, and are subject to internal audit.

### *(e) Capital management*

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

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

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

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

The capital adequacy ratios as at December 31, 2019 and 2018 are computed on the basis as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Company has complied with all externally imposed capital requirements, with capital positions well above the minimum capital requirement set by the HKMA, throughout the years ended December 31, 2019 and 2018. Further information on the Company's capital positions can be found in part (a) of the unaudited supplementary information.

### 13 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Company entered into the following material related party transactions. The Company has policies on lending to related parties which define related parties, credit and reporting processes, requirements and restrictions on such lending.

#### (a) Transactions with group companies

During the year, the Company entered into transactions with related parties in the ordinary course of its business activities. The transactions were priced at the relevant market rates at the time of each transaction.

The amounts of related party transactions during the year and outstanding balances at the end of the year are set out below:

	<i>Ultimate holding company</i>		<i>Intermediate holding company</i>		<i>Fellow subsidiaries</i>	
	2019	2018	2019	2018	2019	2018
Interest income	-	-	112,952	75,098	-	-
Interest expense	-	-	(8)	-	-	-
Fee and commission income	1	-	4,056,948	3,980,717	182,053	268,784
Operating expenses	(27)	(203)	(373,393)	(243,401)	(58,690)	(151,454)
	<u>(26)</u>	<u>(203)</u>	<u>3,796,499</u>	<u>3,812,414</u>	<u>123,363</u>	<u>117,330</u>

#### (b) Amounts outstanding with group companies

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

	<i>Ultimate holding company</i>		<i>Intermediate holding company</i>		<i>Fellow subsidiaries</i>	
	2019	2018	2019	2018	2019	2018
Balances with banks	-	-	8,006,755	7,610,509	-	-
Other assets	-	-	4,480	1,913	7,228	10,470
Deposits and balances of banks	-	-	69,161	-	-	-
Other liabilities	95,503	142,149	14,483	8,719	1,999	15,297

**13 Material related party transactions (continued)**

**(c) Key management personnel remuneration**

Remuneration for key management personnel, including amounts paid to the Company's directors, is as follows:

	2019	2018
Short-term employee benefits	24,219	25,739
Post-employment benefits	311	389
Share-based payments	<u>5,941</u>	<u>7,105</u>
	<u><u>30,471</u></u>	<u><u>33,233</u></u>

Amounts disclosed above include remuneration totalling \$9,876,286 (2018: \$19,577,547) to certain key management personnel were paid by group companies of the Company. The Company did not reimburse the group companies for the service provided.

In addition to the amounts disclosed, remuneration to certain key management personnel totalling \$6,697,765 (2018: \$2,213,947) 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 (2018: Nil).

## Unaudited supplementary information

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

### (a) Capital adequacy ratio

The Company's regulatory capital position was as follows:

	<i>At Dec 31, 2019</i>	<i>At Dec 31, 2018</i>
Common Equity Tier 1 (CET1) capital ratio	<u>72.24%</u>	<u>82.17%</u>
Tier 1 capital ratio	<u>72.24%</u>	<u>82.17%</u>
Total capital ratio	<u>72.24%</u>	<u>82.17%</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*

	<i>At Dec 31, 2019</i>	<i>At Dec 31, 2018</i>
Countercyclical Capital Buffer Ratio	<u>1.57%</u>	<u>0.95%</u>

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

### *Capital Conservation Buffer Ratio*

Under the Banking (Capital) Rules, the capital conservation buffer ratio for calculating the Company's buffer level are 2.5% for 2019 and 1.875% for 2018.

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

### (b) Leverage ratio

	<i>At Dec 31, 2019</i>	<i>At Dec 31, 2018</i>
Leverage ratio	<u>85.40%</u>	<u>89.35%</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**

	2019	2018
Banking support services fees	4,239,002	4,249,502
Others	<u>119,688</u>	<u>105,100</u>
	<u>4,358,690</u>	<u>4,354,602</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.

(iii) **International claims**

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

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

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

At Dec 31, 2019					
Non-bank private sector					
	Banks	Official Sector	Non-bank financial institutions	Non-financial private sector	Total
Developed countries	129,640	-	4,700	1,840	136,180
of which United States	129,590	-	30	-	129,620
At Dec 31, 2018					
Non-bank private sector					
	Banks	Official Sector	Non-bank financial institutions	Non-financial private sector	Total
Developed countries	113,380	-	3,760	1,110	118,250
of which United States	113,380	-	1,600	170	115,150

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

**(i) Capital requirements for credit risk**

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

	2019	2018
Classes of exposures:		
Sovereign	4	4
Bank	128,304	122,042
Securities Firm	266	344
Corporate	1,292	1,423
Collective Investment Scheme	12	40
Other exposures which are not past due	<u>1,515</u>	<u>193</u>
 Total capital requirements for on-statement of financial position exposures	 <u><u>131,393</u></u>	 <u><u>124,046</u></u>

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:

	2019	2018
Capital charge for operational risk	<u><u>630,838</u></u>	<u><u>541,729</u></u>

**(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:

	<i>Total exposures</i>	<i>Exposures after recognized credit risk mitigation</i>		<i>Risk-weighted amounts</i>		<i>Total risk-weighted amounts</i>
		<i>Rated</i>	<i>Unrated</i>	<i>Rated</i>	<i>Unrated</i>	
<b>2019</b>						
<i>On-statement of financial position:</i>						
Sovereign	55	55	-	55	-	55
Bank	8,018,210	8,017,016	1,194	1,603,411	389	1,603,800
Securities Firm	6,637	4,644	1,993	2,322	997	3,319
Corporate	15,850	3,135	12,715	3,438	12,715	16,153
Collective Investment Scheme	278	245	33	123	33	156
Other exposures which are not past due	18,933	18,847	86	18,847	86	18,933
<b>2018</b>						
<i>On-statement of financial position:</i>						
Sovereign	55	55	-	55	-	55
Multinational Development Bank	104	104	-	-	-	-
Bank	7,627,119	7,623,203	3,916	1,524,679	833	1,525,512
Securities Firm	5,170	1,737	3,433	869	3,433	4,302
Corporate	17,614	2,521	15,093	2,695	15,093	17,788
Collective Investment Scheme	503	-	503	-	503	503
Other exposures which are not past due	2,415	-	2,415	-	2,415	2,415

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



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

**(iv) Market risk**

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

**(e) Corporate governance**

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