Citibank (Hong Kong) Limited

Financial Information Disclosure Statements

2014 Annual

CITIBANK (HONG KONG) LIMITED

We enclose herewith the Financial Information Disclosure Statements for the year ended December 31, 2014, which are prepared under the Banking (Disclosure) Rules made pursuant to Section 60A of the Banking Ordinance.

By Order of the Board

Lam Yuk Wah Christine

Director and Chief Executive

April 30, 2015

CITIBANK (HONG KONG) LIMITED

The directors are pleased to announce the final results of Citibank (Hong Kong) Limited (the "Company") for the year ended December 31, 2014.

2014 Full Year Results

For the period under review, operating income was HK$6,133 million (higher than prior year by 6%).

Operating expenses was HK$3,735 million (higher than prior year by 5%).

Impairment losses on loans and advances was HK$253 million (higher than prior year by 5%).

Profit after taxation was HK$1,787 million (higher than prior year 8%).

Loans and advances to customers was HK$65.1 billion (higher than Dec 2013 by 2%). Customer deposits was HK$110 billion (higher than Dec 2013 by 5%).

STATEMENT OF COMPREHENSIVE INCOME

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

	Note	*2014*	*2013*
Interest income	2	3,157,812	3,225,620
Interest expense	3	(412,839)	(444,596)
Net interest income		**2,744,973**	**2,781,024**
Net fee and commission income	4	2,704,046	2,213,519
Net trading income	5	624,673	707,224
Net gain on disposal of available-for-sale financial assets		4,086	12,290
Dividend income from unlisted companies		3,924	3,513
Other operating income		51,628	84,858
Operating income		**6,133,330**	**5,802,428**
Staff costs		(1,124,629)	(1,105,721)
Premises & equipment expenses		(361,830)	(354,558)
Depreciation expenses		(65,627)	(67,529)
Other operating expenses		(2,183,381)	(2,034,220)
Operating expenses		**(3,735,467)**	**(3,562,028)**
Operating profit before impairment		**2,397,863**	**2,240,400**
Impairment losses on loans and advances	6	(253,462)	(242,448)
Operating profit after impairment		**2,144,401**	**1,997,952**
Gains from disposal of tangible fixed assets		**170**	**-**
Profit before taxation		**2,144,571**	**1,997,952**
Taxation	7	(357,868)	(341,207)
Profit after taxation		**1,786,703**	**1,656,745**
Other comprehensive income for the year, net of tax			
Items that will not be classified to profit or loss:			
Remeasurement of net defined benefit plan		-	(58,769)
Items that may be classified subsequently to profit or loss:			
Changes in fair value of available-for-sale financial assets		1,261	15,507
Transfer to profit or loss on disposal of available-for-sale financial assets		(4,086)	(12,290)
Other comprehensive income for the year		(2,825)	(55,552)
Total comprehensive income for the year		1,783,878	1,601,193

BALANCE SHEET

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

	Note	*2014*	*2013 (Restated)*
Assets			
Cash and balances with banks, central banks and other financial institutions		7,078,908	11,918,581
Placements with banks and other financial institutions	8	9,277,311	22,035,358
Loans and advances	9	90,957,172	81,720,704
Trade bills		18,007	21,745
Financial assets at fair value through profit or loss	10	13,273,122	9,656,596
Available-for-sale financial assets	11	13,936,672	11,005,264
Fixed assets	12	454,052	476,981
Intangible assets		148,919	194,873
Deferred tax assets		33,919	37,534
Other assets		3,259,878	2,448,926
		138,437,960	139,516,562
Liabilities			
Deposits and balances from banks and other financial institutions		5,163,363	12,307,666
Deposits from customers	13	110,169,245	104,617,900
Trading financial liabilities	14	401,393	432,364
Current taxation		41,331	48,257
Other liabilities		3,679,658	3,555,063
		119,454,990	120,961,250
Equity			
Share capital		7,348,440	7,348,440
Reserves	15	11,634,530	11,206,872
		18,982,970	18,555,312
		138,437,960	139,516,562

The balance sheet is prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). The following table discloses the balances in accordance with the banking return completion instructions issued by the Hong Kong Monetary Authority ("HKMA"), before the effects of offsetting as suggested in HKAS 32.

Loans and advances to customers	66,092,314	65,335,809
Deposits from customers	111,136,786	105,833,646

CASH FLOW STATEMENT

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

	Note	*2014*	*2013 (Restated)*
Operating activities			
Profit before taxation		2,144,571	1,997,952
Adjustments for:			
- Interest received on available-for-sale financial assets		(85,003)	(76,745)
- Dividends received		(3,924)	(3,513)
- Depreciation		65,627	67,529
- Amortization of intangible assets		29,665	31,956
- Impairment losses		253,462	242,448
- Net gain on disposal of available-for-sale financial assets		(4,086)	(12,290)
- Equity settled share based payment expense		11,514	2,227
- Write-off of fixed assets and intangible assets		29,361	26,252
- Expenses in respect of defined benefit plan		-	(58,769)
		2,441,187	2,217,047
(Increase)/decrease in operating assets:			
Financial assets at fair value through profit or loss		152,537	7,032,172
Loans and advances and Trade bills		(9,486,192)	909,329
Cash and balances with banks, central banks and other financial institutions with original maturity beyond three months		(713,337)	994,970
Gross placements with banks and other financial institutions with original maturity beyond three months		7,527,908	(5,857,958)
Other assets		(810,945)	(319,110)
		(3,330,029)	2,759,403
Increase/(decrease) in operating liabilities:			
Trading financial liabilities		(30,971)	383,496
Deposits from customers		5,551,345	1,272,658
Deposits from banks and other financial institutions		(6,994,799)	(1,803,271)
Other liabilities		113,816	18,814
		(1,360,609)	(128,303)
Cash (used in)/generated from operations		(2,249,451)	4,848,147

CASH FLOW STATEMENT (CONTINUED)

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

	Note	*2014*	*2013 (Restated)*
Income tax paid			
- Hong Kong Profits Tax paid		(359,824)	(392,857)
- Overseas Tax paid		(106)	-
Net cash (used in)/generated from operating activities		(2,609,381)	4,455,290
Investing activities			
Payment for purchase of intangible assets		(7,452)	(40,890)
Payment for purchase of fixed assets		(48,318)	(50,956)
Proceeds from sale of available-for-sale financial assets with original maturity beyond three months		11,009,350	5,128,542
Payment for purchase of available-for-sale financial assets with original maturity beyond three months		(13,940,800)	(11,001,411)
Interest received on available-for-sale financial assets		85,003	76,745
Dividends received		3,924	3,513
Net cash (used in)/generated from investing activities		(2,898,293)	(5,884,457)
Financing activities			
Dividends paid to equity shareholder of the Company		(1,356,908)	(581,415)
Net cash used in financing activities		(1,356,908)	(581,415)
Net (decrease)/ increase in cash and cash equivalents		(6,864,582)	(2,010,582)
Cash and cash equivalents at January 1		23,098,865	25,109,447
Cash and cash equivalents at December 31	16	16,234,283	23,098,865
Cash flows from operating activities include:			
Interest received		3,196,207	3,253,035
Interest paid		(433,932)	(456,727)

NOTES ON THE FINANCIAL STATEMENTS

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

1 Significant accounting policies

Citibank (Hong Kong) Limited (the "Company") is a licensed bank incorporated and domiciled in Hong Kong and has its registered office at 8/F Dorset House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap.32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit". 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(h)(iv)); and
- financial instruments classified as trading, designated at fair value through profit or loss and available-for-sale (see note 1(d)(ii)).

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.

1 Significant accounting policies (continued)

Change in presentation in balance sheet

In previous years, placement with banks and financial institutions having different residual contractual maturities are included in "Placement with banks and other financial institutions". In 2014, in order to align the presentation in the financial statements with the presentation in accordance with the Banking (Disclosure) Rules, placement with banks and other financial institutions which have residual contractual maturities within one month are reclassified as "Cash and balances with banks, central banks and other financial institutions", while balances with residual contractual maturities greater than one year are reclassified as "Loans and advances". This change has no effect on the statement of comprehensive income and no impact on net assets.

Cash flow statement, corresponding notes and comparative figures have been adjusted to conform with the changes in presentation.

(c) Intangible assets

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

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

-	customer relationships	10 years
-	acquired computer software licenses	1 - 3 years
-	capitalized development costs of computer software program	5 - 10 years

Both the period and method of amortisation are reviewed annually.

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

1 Significant accounting policies (continued)

(d) Financial instruments

(i) Initial recognition

The Company classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

The Company recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

(ii) Categorization

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but excludes those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Financial instruments are designated at fair value through profit or loss upon initial recognition when the assets or liabilities are managed, evaluated and reported internally on a fair value basis.

Financial assets and liabilities under this category are carried at fair value. Changes in the fair value are included in the profit or loss in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the profit or loss.

1 Significant accounting policies (continued)

(d) Financial instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Company intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Company, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (c) those where the Company may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables comprise loans and advances to customers, trade bills, balances and placements with banks and other financial institutions.

Loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (see note 1(f)).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised directly in the revaluation reserve, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in the profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (see note 1(f)).

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are released from the revaluation reserve.

Other financial liabilities

Financial liabilities, other than those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

1 Significant accounting policies (continued)

(d) Financial instruments (continued)

(iii) Fair value measurement principles

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

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

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

(iv) Derecognition

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

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

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

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet 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)

(d) Financial instruments (continued)

(vi) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the profit or loss.

When the embedded derivative is separated, the host contract is accounted for in accordance with note (ii) above.

(e) Fixed Assets

Fixed Assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(f)).

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

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

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

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

1 Significant accounting policies (continued)

(f) Impairment of assets

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Company about one or more of the following loss events which has an impact on the future cash flows on the assets that can be estimated reliably:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- disappearance of an active market for financial assets because of financial difficulties; and
- a significant or prolonged decline in the fair value of an investment instrument below its cost.

If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Company is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the profit or loss.

(i) Loans and receivables

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances, and collective impairment allowances.

1 Significant accounting policies (continued)

(f) Impairment of assets (continued)

(i) Loans and receivables (continued)

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgments about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Company. Each impaired asset is assessed on its own merits.

In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Company makes assumptions both to define the way the Company models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Company makes depends on how well the Company can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgment, the Company believes that the impairment allowances on loans and advances to customers are reasonable and supportable.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to the profit or loss. A reversal of impairment losses is limited to the loans and receivables carrying amount that would have been determined had no impairment loss been recognised in prior years.

When there is no reasonable prospect of recovery, the loan and the related interest receivables are written off.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Company has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or past due.

1 Significant accounting policies (continued)

(f) Impairment of assets (continued)

(ii) Available-for-sale financial assets

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the profit or loss. The amount of the cumulative loss that is recognised in the profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in the profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the profit or loss.

(iii) Other assets

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

- fixed assets; and
- intangible assets.

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

- Calculation of recoverable amount

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

1 Significant accounting policies (continued)

(f) Impairment of assets (continued)

(iii) Other assets (continued)

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

(g) Cash and cash equivalents

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

(h) Employee benefits

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

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

1 Significant accounting policies (continued)

(h) Employee benefits (continued)

(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 profit or loss. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from the 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 balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligations.

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

(iii) Termination benefits

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

1 Significant accounting policies (continued)

(h) Employee benefits (continued)

(iv) Share based payments

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

(i) Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the 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.

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.

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 balance sheet date. Deferred tax assets and liabilities are not discounted.

1 Significant accounting policies (continued)

(i) Income tax (continued)

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 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 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 realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(j) Provisions and contingent liabilities

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

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

1 Significant accounting policies (continued)

(k) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit or loss as follows:

(i) 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 method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to the profit or loss over their expected life.

For impaired loans, the accrual of interest income based on the original terms of the loan is discontinued, but any increase in the present value of impaired loans due to the passage of time is reported as interest income.

(ii) Membership fee income

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

(iii) Finance charges

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

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

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

(iv) Commission income

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

1 Significant accounting policies (continued)

(k) Revenue recognition (continued)

(v) Service fee income

Service fee income is recognised when services are rendered.

(l) 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 recognised in the profit or loss.

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

Exchange differences relating to investments at fair value through profit or loss and derivative financial instruments are included in gains less losses from trading securities or financial instruments designated at fair value through profit or loss. All other exchange differences relating to monetary items are presented as gains less losses from dealing in foreign currencies in the profit or loss. Differences arising on translation of available-for-sale equity instruments are recognised in other comprehensive income and accumulated in equity.

(m) Related parties

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

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

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

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

1 Significant accounting policies (continued)

(k) Revenue recognition (continued)

(b) (continued)

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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 Interest income

	2014	*2013*
Interest income on loans to customers	2,573,576	2,511,700
Interest income on placements with banks and other financial institutions	439,712	516,971
Interest income on investments		
- Listed	57,501	60,554
- Unlisted	27,502	16,191
Interest income on financial instruments that are not measured at fair value through profit or loss	3,098,291	3,105,416
Interest income on financial assets designated at fair value through profit or loss		
- Listed	1,538	1,676
- Unlisted	57,983	118,528
Total interest income from all financial assets	3,157,812	3,225,620

Included in the above is interest income accrued on impaired financial assets of HK$8,873 thousand (2013: HK$8,050 thousand).

3 Interest expense

	2014	*2013*
Interest expense on deposits from customers	364,673	373,074
Interest expense on deposits from banks and other financial institutions	48,166	71,522
Interest expense on financial instruments that are not measured at fair value through profit or loss	412,839	444,596

4 Net fee and commission income

	2014	*2013*
Fee and commission income from retail banking	1,510,366	1,120,354
Fee and commission income from card business	1,434,360	1,330,337
Service fee from fellow subsidiaries	307,797	237,987
	3,252,523	2,688,678
Fee and commission expenses	(548,477)	(475,159)
	2,704,046	2,213,519

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

5 Net trading income

	2014	*2013*
Net gain from dealing in foreign exchange	620,326	711,492
Net (loss)/gain from trading interest rate derivatives	(418)	207
Net gain/(loss) from financial assets designated at fair value through profit or loss	4,765	(4,475)
	624,673	707,224

6 Impairment losses on loans and advances

	2014	*2013*
Impairment losses charged on loans and advances		
Individually assessed:		
- New provisions (note 9(b))	387,777	375,730
- Releases (note 9(b))	(125,511)	(114,336)
	262,266	261,394
Collectively assessed:		
- New provisions (note 9(b))	-	-
- Releases (note 9(b))	(8,804)	(18,946)
	253,462	242,448

7 Taxation

	2014	*2013*
Provision for Hong Kong Profits Tax	352,928	339,615
Overseas Taxation	106	-
Deferred taxation	4,834	1,592
	357,868	341,207

The provision for Hong Kong Profits Tax for 2014 is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the year.

8 Placements with banks and other financial institutions

	2014	*2013 (Restated)*
Maturing between one month and one year	9,277,311	22,035,358

9 Loans and advances

(a) Loans and advances less impairment

	2014	*2013 (Restated)*
Gross loans and advances to customers	65,330,318	64,334,412
Less: Impairment allowances		
- individually assessed (note (b))	-	-
- collectively assessed (note (b))	(205,545)	(214,349)
	65,124,773	64,120,063
Gross loans and advances to banks	25,832,399	17,600,641
	90,957,172	81,720,704

(b) Movement in impairment allowances on loans and advances

	Individually assessed	*Collectively assessed*	*Total*
At January 1, 2014	-	214,349	214,349
New provision (note 6)	387,777	-	387,777
Recoveries	125,511	-	125,511
Releases (note 6)	(125,511)	(8,804)	(134,315)
Amounts written off	(387,777)	-	(387,777)
At December 31, 2014	-	205,545	205,545
At January 1, 2013	-	233,295	233,295
New provision (note 6)	375,730	-	375,730
Recoveries	114,336	-	114,336
Releases (note 6)	(114,336)	(18,946)	(133,282)
Amounts written off	(375,730)	-	(375,730)
At December 31, 2013	-	214,349	214,349

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

Loans and advances to customers for use in Hong Kong	*2014*	*2013*
Industrial, commercial and financial		
- Property investment	5,505,263	6,167,593
- Wholesale and retail trade	311,220	195,019
- Manufacturing	105,377	88,865
- Others	130,060	82,218
Individuals		
- Loans for the purchase of other residential properties	33,531,612	32,261,653
- Credit card advances	13,708,803	13,241,416
- Others	12,740,671	13,215,039
	66,033,006	65,251,803
Netting adjustment on account of foreign currency margin products	(967,541)	(1,215,746)
Total loans and advances to customers for use in Hong Kong	65,065,465	64,036,057
Loans and advances to customers for use outside Hong Kong	14,493	11,064
Trade finance	250,360	287,291
Total	65,330,318	64,334,412

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

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

(d) Impaired loans and advances to customers

	2014		*2013*	
	Amount	*% of total loans and advances to customers*	*Amount*	*% of total loans and advances to customers*
Overdue loans and advances to customers	42,045	0.06%	50,239	0.08%
Rescheduled loans and advances to customers	38,365	0.06%	48,328	0.08%
Gross impaired loans and advances to customers	80,410	0.12%	98,567	0.16%

The gross impaired loans and advances disclosed above correspond to the total loans and advances to customers for use in Hong Kong.

10 Financial assets at fair value through profit or loss

	2014	*2013*
Financial assets designated at fair value through profit or loss		
Treasury bills (including exchange fund notes)	13,078,611	9,593,311
Trading financial assets		
Positive fair value of derivatives (note 17b)	194,511	63,285
	13,273,122	9,656,596
Issued by:		
- Sovereigns	13,078,611	9,593,311
Analysed by place of listing:		
- Listed in Hong Kong	76,992	85,497
- Unlisted	13,001,619	9,507,814
	13,078,611	9,593,311

11 Available-for-sale financial assets

	2014	*2013*
Exchange fund notes	11,853,030	8,099,049
Debt securities	2,083,642	2,906,215
	13,936,672	11,005,264
Issued by:		
- Sovereigns	11,853,030	8,099,049
- Banks	2,083,642	2,090,849
- Corporate	-	815,366
	13,936,672	11,005,264
Analysed by place of listing:		
- Listed outside Hong Kong	1,816,330	1,838,386
- Unlisted	12,120,342	9,166,878
	13,936,672	11,005,264

12 Fixed assets

	Buildings held for own use carried at cost	*Plant, machinery and other assets*	*Installations*	*Construction in progress*	*Total fixed assets*
Cost or valuation:					
At January 1, 2014	405,528	150,948	206,694	23,496	786,666
Additions	-	7,237	840	40,241	48,318
Transfer	-	2,321	32,124	(34,445)	-
Write-offs	-	(5,481)	(16,693)	(280)	(22,454)
At December 31, 2014	405,528	155,025	222,965	29,012	812,530
Accumulated depreciation:					
At January 1, 2014	72,319	106,101	131,265	-	309,685
Charge for the year	8,111	20,135	37,381	-	65,627
Write-offs	-	(5,129)	(11,705)	-	(16,834)
At December 31, 2014	80,430	121,107	156,941	-	358,478
Net book value:					
At December 31, 2014	325,098	33,918	66,024	29,012	454,052
Cost or valuation:					
At January 1, 2013	405,528	149,728	195,087	34,045	784,388
Additions	-	13,087	3,681	34,188	50,956
Transfer	-	2,710	35,099	(37,809)	-
Write-offs	-	(14,577)	(27,173)	(6,928)	(48,678)
At December 31, 2013	405,528	150,948	206,694	23,496	786,666
Accumulated depreciation:					
At January 1, 2013	64,210	103,962	110,049	-	278,221
Charge for the year	8,109	14,655	44,765	-	67,529
Write-offs	-	(12,516)	(23,549)	-	(36,065)
At December 31, 2013	72,319	106,101	131,265	-	309,685
Net book value:					
At December 31, 2013	333,209	44,847	75,429	23,496	476,981

13 Deposits from customers

	2014	*2013*
Demand deposits and current accounts	19,194,720	15,472,453
Savings deposits	62,756,037	58,282,518
Time, call and notice deposits	28,218,488	30,862,929
	110,169,245	104,617,900

14 Trading financial liabilities

	2014	*2013*
Negative fair value of derivatives (note 17b)	401,393	432,364

15 Reserves

	Available-for-sale revaluation reserve	*Retained profits*	*Capital reserves*	*Total*
At January 1, 2014	8,307	11,203,666	(5,101)	11,206,872
Changes in reserves for 2014:				
Share based payment transactions, net of tax	-	-	688	688
Total comprehensive income for the year	(2,825)	1,786,703	-	1,783,878
Dividend declared in respect of the current year	-	(1,356,908)	-	(1,356,908)
At December 31, 2014	5,482	11,633,461	(4,413)	11,634,530
At January 1, 2013	5,090	10,187,105	(1,099)	10,191,096
Changes in reserves for 2013:				
Share based payment transactions, net of tax	-	-	(4,002)	(4,002)
Total comprehensive income for the year	3,217	1,597,976	-	1,601,193
Dividend declared in respect of the current year	-	(581,415)	-	(581,415)
At December 31, 2013	8,307	11,203,666	(5,101)	11,206,872

15. Reserves (continued)

(a) Nature and purpose of reserves

Available-for-sale revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities until the financial assets are derecognized and is dealt with in accordance with the accounting policies in notes 1(d) and 1(f).

Capital reserves

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 notes 1 (h)(iv).

(b) Regulatory reserve

The regulatory reserve is earmarked for the purpose of paragraph 9 of the Seventh Schedule to the Hong Kong Banking Ordinance to set aside amounts in respect of losses which the Company will or may incur on loans and advances in addition to impairment losses recognized under HKAS 39. Movements in the reserve are earmarked directly through retained earnings and in consultation with the HKMA. As of December 31, 2014, the regulatory reserve is earmarked at HK$1,312,676 thousand (2013: HK$1,286,750 thousand).

(c) Distributability of reserves

At 31 December 2014, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$10,321,854 thousand (2013: HK$9,920,122 thousand).

(d) The directors did not propose any final dividend (2013: Nil) after the year end.

16 Cash and cash equivalents

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

	2014	*2013 (Restated)*
Cash and balances with banks, central banks and other financial institutions with original maturity within three months	6,365,571	11,918,581
Placements with banks and other financial institutions with original maturity within three months	2,403,688	7,633,827
Financial assets designated at fair value through profit or loss with original maturity within three months	7,877,038	4,107,975
	16,646,297	23,660,383
Less: Overdrafts	(412,014)	(561,518)
Cash and cash equivalents in the cash flow statement	16,234,283	23,098,865

16 Cash and cash equivalents (continued)

(b) Reconciliation with the balance sheet

	2014	*2013 (Restated)*
Cash and balances with banks, central banks and other financial institutions	7,078,908	11,918,581
Placements with banks and other financial institutions (note 8)	9,277,311	22,035,358
Available-for-sale financial assets (note 11)		
- Exchange fund notes (note 11)	11,853,030	8,099,049
- Debt securities (note 11)	2,083,642	2,906,215
Financial assets designated at fair value through profit or loss (note 10)		
- Treasury Bills (note 10)	13,078,611	9,593,311
- Debt securities (note 10)	-	-
Amounts shown in the balance sheet	43,371,502	54,552,514
Less: Amounts with an original maturity of beyond three months	(26,725,205)	(30,892,131)
Less: Overdrafts	(412,014)	(561,518)
Cash and cash equivalents in the cash flow statement	16,234,283	23,098,865

17 Derivatives

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

(a) Notional amount of derivatives

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

	2014	*2013*
Interest rate derivatives		
Swaps	300,000	1,200,000
Currency derivatives		
Forwards and futures	18,716,738	16,672,821
Options purchased	2,198,513	3,552,011
Options written	2,198,513	3,552,011
	23,113,764	23,776,843
	23,413,764	24,976,843

17 Derivatives (continued)

(a) Notional amount of derivatives (continued)

Interest rate swaps and currency forwards and futures are acquired or incurred principally for trading purposes. Currency options are customer driven transactions and hedging transactions where the Company has elected not to use hedge accounting.

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

	2014			*2013*		
	Fair value		*Credit risk weighted amount*	*Fair value*		*Credit risk weighted amount*
	Assets	*Liabilities*		*Assets*	*Liabilities*	
Interest rate derivatives	-	218	-	2,131	1,287	1,816
Currency derivatives	194,511	401,175	147,676	61,154	431,077	92,565
	194,511	401,393	147,676	63,285	432,364	94,381

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

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

18 Contingent liabilities and commitments

	2014	*2013*
Contractual or notional amounts		
Trade-related contingencies	6,433	12,838
Forward forward deposits placed	320	383,401
Other commitments		
- with an original maturity of not more than one year	301,304	261,601
- with an original maturity of more than one year	1,169,777	1,275,149
- which are unconditionally cancellable	73,900,561	79,600,260
	75,378,395	81,533,249
Credit risk-weighted amounts	254,560	351,012

18. Contingent liabilities and commitments (continued)

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

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

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.

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

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

(a) Credit risk management

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

19 Financial risk management (continued)

(a) Credit risk management (continued)

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

- formulating credit policies on new acquisition, portfolio management, collection and recovery for credit portfolios;
- developing risk acceptance criteria for portfolios towards segments, sectors, industries, usages and collaterals;
- undertaking an independent review and objective assessment of credit risks;
- controlling exposures to portfolios, industries, counterparties and countries etc by setting limits;
- monitoring the performance of credit portfolios, including collateral positions, and developing effective remedial strategies;
- evaluating potentially adverse scenario that may impact the quality and performance of credit portfolios;
- establishing key risk indicators that assess the market situation on on-going basis; and
- providing advice and guidance to business units on various credit-related issues.

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

Consumer credit risk

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

Credit risk for treasury transactions

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

Credit-related commitments

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

19 Financial risk management (continued)

(a) Credit risk management (continued)

Master netting arrangements

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

Concentration of credit risk

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

(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 and sets liquidity package as well as permitted product list, ensuring adherence to risk management objectives.

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

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.

19 Financial risk management (continued)

(b) Market risk management (continued)

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

(ii) Interest rate risk

The Company's interest rate positions arise from treasury and consumer banking activities. Interest rate risk arises in both trading portfolios and non-trading portfolios. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. It also related to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Interest rate risk is managed by the Treasury Department within limits approved by the Regional Market Risk Management, including interest rate gap limits. The Company also uses interest rate swaps to manage interest rate risk.

(c) Liquidity risk management

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

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

Policies and Procedures

The Company has established an Asset and Liability Management Committee ("ALCO"). The ALCO Charter includes the monitoring and control of liquidity and funding. ALCO monitors trends in balance sheet and ensures that any concerns that might impact the stability of the customer deposits are addressed effectively.

19 Financial risk management (continued)

(c) Liquidity risk management (continued)

Policies and Procedures (continued)

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

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

- Net intragroup balance
- 3rd party liquid assets
- Liquidity ratios
- Loan to deposit ratio
- Daily S2
- Liquidity Coverage Ratio Prime

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

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

Stress Test

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

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

19 Financial risk management (continued)

(c) Liquidity risk management (continued)

Stress Test (continued)

There is a wide range of liquidity events over a full year, some may cover an intense stress period of one month, and still other time frames may be appropriate. These potential liquidity events are useful to ascertain potential mismatches between liquidity sources and uses over a variety of time horizons by tenor buckets. Liquidity limits are set accordingly. To monitor the liquidity of the Company, those stress tests and potential mismatches may be calculated with varying frequencies, with several important tests performed daily. Daily S2 is Citi's primary long term stress metrics, which monitors funds surplus or deficit, requires sufficient liquidity to meet all maturing obligations within 12 months under Highly Stressed Market Disruption Scenario, i.e. self-sufficiency ratio is required to meet the minimum self-sufficiency standard of 100%, including intercompany borrowings. All assumptions used in the stress scenario must be approved under the process of "Annual Funding and Liquidity Plan". Hong Kong on a total country basis, must maintain sufficient liquidity to meet all maturing obligations with 12 months under the S2 stress scenario. S4 – "Institution Specific and Local Market Scenario", which requires a self-sufficiency period over a 3 month period is performed on a monthly basis.

Daily S2 is prepared for all major currencies including HKD, CNY and G10 currencies. Other minor currencies are included in the S2 Universal.

Liquidity Coverage Ratio ("LCR") Prime is Citi's daily short-term liquidity matric. It is largely leveraged Basel III LCR Regulatory assumptions and incorporating with Citi's internal assumptions to derive the liquidity coverage for a 30 days period. Hong Kong, on a total country basis, must meet a survival horizon of 30 days under their LCR Prime.

Encumbered and unencumbered assets

An asset is defined as encumbered, from a liquidity perspective, if it has been pledged as collateral against an existing liability, and as a result is no longer available to the bank to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. An asset is therefore categorized as unencumbered if it has not been pledged against an existing liability. As of December 31, 2014, High Quality Liquid Asset (HQLA) held by the bank is mostly unencumbered assets, except a small portion of Hong Kong exchange full bills which are set aside for intraday liquidity needs.

The Company maintains a sufficient cushion of HQLA which can be sold or used as collateral to provide liquidity under stress period. The compositions of the HQLA are mainly in government securities together with a small portion of high investment grade credit securities. The size of the liquidity cushion was approximately HK$25 billion as of December 31, 2014.

On a daily basis, the Company monitors the level of incremental collateral that would be required by its derivative counterparties. Collateral triggers are maintained by the Company's collateral management department and vary by counterparty. Given the Company's derivative contracts are mainly FX swaps constituting an immaterial portion of the Company's balance sheet and cash positions are held or posted as collateral, a rating downgrade would have no material impact on the Company's collateral requirement.

19 Financial risk management (continued)

(c) Liquidity risk management (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.

2014	*Total*	*Repayable on demand*	*1 month or less*	*Over 1 month to 3 months*	*Over 3 months to 1 year*	*Over 1 year to 5 years*	*Over 5 years*	*Undated or overdue*
Assets								
Cash and balances with banks, central banks and other financial institutions	7,078,908	4,762,705	2,316,203	-	-	-	-	-
Placements with banks and other financial institutions	9,277,311	-	-	3,684,252	5,593,059	-	-	-
Loans and advances	90,957,172	8,829,442	649,861	1,213,842	7,390,194	43,338,034	29,370,856	164,943
Trade bills	18,007	498	2,052	3,629	11,828	-	-	-
Financial assets at fair value through profit or loss	13,273,122	-	6,734,746	5,667,182	676,683	-	-	194,511
Available-for-sale financial assets	13,936,672	-	5,249,967	3,056,318	3,634,522	1,995,865	-	-
Non-interest bearing assets	3,896,768	-	-	-	-	-	-	3,896,768
	138,437,960	13,592,645	14,952,829	13,625,223	17,306,286	45,333,899	29,370,856	4,256,222
Liabilities								
Deposits and balances from banks and other financial institutions	5,163,363	412,014	1,187,255	185,092	2,377,752	1,001,250	-	-
Deposits from customers	110,168,245	81,950,759	16,782,098	10,375,471	1,059,355	1,562	-	-
Trading financial liabilities	401,393	-	-	-	-	-	-	401,393
Non-interest bearing liabilities	3,720,989	-	-	-	-	-	-	3,720,989
	119,454,990	82,362,773	17,969,353	10,560,563	3,437,107	1,002,812	-	4,122,382
Commitments								
Direct credit substitutes	-	-	-	-	-	-	-	-
Trade-related contingencies	6,433	14	1,923	2,127	2,369	-	-	-
Other commitments	75,371,642	75,117,596	219,154	34,892	-	-	-	-
Forward deposits placed	320	-	320	-	-	-	-	-
	75,378,395	75,117,610	221,397	37,019	2,369	-	-	-
Of which:								
Debt securities								
- included in financial assets at fair value through profit or	13,078,611	-	6,734,746	5,667,182	676,683	-	-	-
- included in available-for-sale financial assets	13,936,672	-	5,249,967	3,056,318	3,634,522	1,995,865	-	-
	27,015,283	-	11,984,713	8,723,500	4,311,205	1,995,865	-	-

19 Financial risk management (continued)

(c) Liquidity risk management (continued)

2013 (Restated)	*Total*	*Repayable on demand*	*1 month or less*	*Over 1 month to 3 months*	*Over 3 months to 1 year*	*Over 1 year to 5 years*	*Over 5 years*	*Undated or overdue*
Assets								
Cash and balances with banks, central banks and other financial institutions	11,918,581	2,169,223	9,749,358	-	-	-	-	-
Placements with banks and other financial institutions	22,035,358	-	-	12,708,994	9,326,364	-	-	-
Loans and advances	81,720,704	8,971,937	553,803	1,170,951	7,588,443	34,435,493	28,798,431	201,646
Trade bills	21,745	1,331	1,910	7,393	11,111	-	-	-
Financial assets at fair value through profit or loss	9,656,596	-	5,271,956	3,189,667	1,052,897	78,791	-	63,285
Available-for-sale financial assets	11,005,264	-	-	3,499,052	4,599,997	2,865,342	40,873	-
Non-interest bearing assets	3,158,314	-	-	-	-	-	-	3,158,314
	139,516,562	11,142,491	15,577,027	20,576,057	22,578,812	37,379,626	28,839,304	3,423,245
Liabilities								
Deposits and balances from banks and other financial institutions	12,307,666	561,518	3,003,548	814,401	5,375,555	2,552,644	-	-
Deposits from customers	104,617,900	73,754,971	17,227,217	10,902,076	2,731,457	2,179	-	-
Trading financial liabilities	432,364	-	-	-	-	-	-	432,364
Non-interest bearing liabilities	3,603,320	-	-	-	-	-	-	3,603,320
	120,961,250	74,316,489	20,230,765	11,716,477	8,107,012	2,554,823	-	4,035,684
Commitments								
Direct credit substitutes	-	-	-	-	-	-	-	-
Trade-related contingencies	12,838	7,243	1,874	2,122	1,599	-	-	-
Other commitments	81,137,010	80,912,228	184,819	39,963	-	-	-	-
Forward deposits placed	383,401	-	1,085	382,316	-	-	-	-
	81,533,249	80,919,471	187,778	424,401	1,599	-	-	-
Of which:								
Debt securities								
- included in financial assets at fair value through profit or	9,593,311	-	5,271,956	3,189,667	1,052,897	78,791	-	-
- included in available-for-sale financial assets	11,005,264	-	-	3,499,052	4,599,997	2,865,342	40,873	-
	20,598,575	-	5,271,956	6,688,719	5,652,894	2,944,133	40,873	-

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

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

The 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 assessing 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 by 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 be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

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

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

The Company has complied with all externally imposed capital requirements, with capital positions well above the minimum capital requirement set by the HKMA, throughout the years ended December 31, 2014 and 2013. Further information on the Company’s capital positions can be found in part (a) of the unaudited supplementary information.

20 Fair values of financial instruments

The carrying amounts of the Company's financial instruments (loans and advances to customers and deposit from customers) are carried at cost or amortised cost and are reasonable approximation of their fair values as at 31 December 2014 and 2013.

21 Material related party transactions

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

(a) Transactions with group companies

During the year, the Company entered into transactions with related parties in the ordinary course of its banking business including lending, acceptance and placement of inter-bank deposits, correspondent banking transactions and off-balance sheet transactions. The transactions were priced at the relevant market rates at the time of each transaction.

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

	Ultimate holding company		*Fellow subsidiaries*	
	2014	*2013*	*2014*	*2013*
Interest income	-	-	343,989	387,209
Interest expense	-	-	(48,148)	(71,512)
Fee and commission income	-	-	307,797	237,987
Net trading income	-	-	3,842	(5,045)
Other operating income	-	-	-	-
Operating expenses	-	-	(1,209,439)	(1,104,801)
For the year ended December 31	-	-	(601,959)	(556,162)

21 Material related party transactions (continued)

(a) Transactions with group companies (continued)

	Ultimate holding company		*Fellow subsidiaries*	
	2014	*2013*	*2014*	*2013*
Placement of deposits				
At January 1	-	-	49,385,357	48,627,911
At December 31	-	-	37,425,913	49,385,357
Average balance	-	-	43,405,635	49,006,634
Acceptance of deposits				
At January 1	-	-	12,566,491	15,689,627
At December 31	-	-	5,423,484	12,566,491
Average balance	-	-	8,994,988	14,128,059
Cash and balances with banks and financial institutions				
At January 1	-	-	897,901	2,828,480
At December 31	-	-	1,575,661	897,901
Average balance	-	-	1,236,781	1,863,191
Other assets				
At January 1	-	-	694,720	379,543
At December 31	-	-	861,831	694,720
Average balance	-	-	778,276	537,132
Other liabilities				
At January 1	29,271	22,751	449,732	97,405
At December 31	29,321	29,271	422,811	449,732
Average balance	29,296	26,011	436,272	273,569

No impairment allowance was made in respect of the above loans to and placements with related parties.

21 Material related party transactions (continued)

(b) Key management personnel remuneration

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

	2014	*2013*
Short-term employee benefits	42,397	37,491
Post-employment benefits	2,622	2,328
Equity compensation benefits	3,070	1,063
	48,089	40,882

Amounts disclosed above include remuneration totaling HK$11,443 thousand (2013: HK$9,949 thousand) to certain key management personnel who also provided services to fellow subsidiaries of the Company during the year. The directors consider that it is not reasonably practicable to quantify the amounts that should be allocated to those fellow subsidiaries for disclosure purpose.

In addition to the amounts disclosed above, remuneration to certain key management personnel totaling HK$43,860 thousand (2013: HK$56,800 thousand) was paid by fellow subsidiaries of the Company. The directors consider that it is not reasonably practicable to quantify the amounts that should be allocated to the Company for disclosure purpose.

(c) Credit facilities to key management personnel

During the year, the Company provided credit facilities to its key management personnel and their close family members and companies controlled or significantly influenced by them. The credit facilities were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing or, where applicable, with other employees.

	2014	*2013*
At January 1	62,256	58,654
At December 31	68,831	62,256
Maximum balance	76,740	84,686

(d) Loans to officers

Loans to officers of the Company disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to Section 161B of the predecessor Hong Kong Companies Ordinance (Cap. 32) are as follows:

	2014	*2013*
Aggregate amount of relevant loans made by the Company outstanding at December 31	68,838	62,295
Maximum aggregate amount of relevant loans made by the Company outstanding during the year	76,785	84,740

UNAUDITED SUPPLEMENTARY INFORMATION

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

(a) Capital adequacy ratio

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

	At Dec 31, 2014	*At Dec 31, 2013*
The Company's regulatory capital position was as follows:		
Common Equity Tier 1 (CET1) capital ratio	27.95%	26.73%
Tier 1 capital ratio	27.95%	26.73%
Total capital ratio	29.03%	27.82%

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

(b) Liquidity ratio

	2014	*2013*
Average liquidity ratio for the year	34.80%	35.96%

The average liquidity ratio is computed as the simple average of each calendar month's average ratio and in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

(c) Further analysis on loans and advances to customers

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

	2014		*2013*	
	Amount	*% of loans and advances covered by collateral or other security*	*Amount*	*% of loans and advances covered by collateral or other security*
Loans and advances to customers for use in Hong Kong				
Industrial, commercial and financial				
Property investment	5,505,263	100%	6,167,593	100%
Wholesale and retail trade	311,220	56%	195,019	60%
Manufacturing	105,377	52%	88,865	58%
Others	130,060	45%	82,218	40%
Individuals				
Loans for the purchase of other residential properties	33,531,612	100%	32,261,653	100%
Credit card advances	13,708,803	-	13,241,416	-
Others	12,740,671	56%	13,215,039	57%
	66,033,006		65,251,803	
Netting adjustment on account of foreign currency margin products	(967,541)		(1,215,746)	
Total loans and advances to customers for use in Hong Kong	65,065,465		64,036,057	
Loans and advances to customers for use outside Hong Kong	14,493	-	11,064	11%
Trade finance	250,360	55%	287,291	65%
Total	65,330,318		64,334,412	

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

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

(i) Loans and advances to customers analyzed by industry sector (continued)

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

	2014	*2013*
Overdue loans and advances to customers		
Individuals		
Loans for the purchase of other residential properties	491	10,870
Credit card advances	33,780	30,431
Others	5,185	8,742
Impaired loans and advances to customers		
Individuals		
Loans for the purchase of other residential properties	5,960	16,491
Credit card advances	33,780	30,431
Others	35,604	51,330
Collective impairment allowances		
Individuals		
Loans for the purchase of other residential properties	57	57
Credit card advances	153,318	136,585
Others	49,746	64,559
New impairment allowances		
Individuals		
Credit card advances	237,257	190,306
Others	6,789	76,807
Advances written off during the year		
Individuals		
Credit card advances	220,524	196,001
Others	21,602	71,945

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

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

(d) Segmental information

(i) By class of business

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

(ii) By geographical area

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

(iii) Cross border claims

The cross-border exposures in the table below are prepared in accordance with the HKMA Return of the External Positions Part II: Cross-Border Claims (MA(BS)9A) guidelines. Cross-border claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk. Countries or geographical areas constituting 10% or more of the total cross-border claims are disclosed.

	2014			
	Banks and other financial institutions	*Public sector entities*	*Others*	*Total*
Asia Pacific excluding Hong Kong	1,272,920	2,331,595	3,915,896	7,520,411
North America	38,820,370	3,440,041	250,825	42,511,236

	2013			
	Banks and other financial institutions	*Public sector entities*	*Others*	*Total*
Asia Pacific excluding Hong Kong	1,370,666	1,988,022	4,204,093	7,562,781
North America	50,172,089	2,909,213	983,230	54,064,532

(e) Overdue and rescheduled assets

(i) Overdue loans and advances to customers

	2014		*2013*	
	Amount	*% of loans and advances to customers*	*Amount*	*% of loans and advances to customers*
Loans and advances to customers which have been overdue for periods of:				
- 6 months or less but over 3 months	41,554	0.06%	49,730	0.08%
- 1 year or less but over 6 months	-	-	-	-
- over 1 year	491	0.00%	509	0.00%
	42,045	0.06%	50,239	0.08%
Current market value of collateral held against the covered portion of overdue loans and advances to customers	5,859		35,818	
Covered portion of overdue loans and advances to customers	2,450		511	
Uncovered portion of overdue loans and advances to customers	39,595		49,728	
	42,045		50,239	

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

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

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

(e) Overdue and rescheduled assets (continued)

(ii) Rescheduled loans and advances to customers

	2014		*2013*	
	Amount	*% of loans and advances to customers*	*Amount*	*% of loans and advances to customers*
Rescheduled loans and advances to customers	38,365	0.06%	48,328	0.08%

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

(iii) Impaired loans and advances to customers

	2014		*2013*	
	Amount	*% of loans and advances to customers*	*Amount*	*% of loans and advances to customers*
Overdue loans and advances to customers	42,045	0.06%	50,239	0.08%
Rescheduled loans and advances to customers	38,365	0.06%	48,328	0.08%
Impaired loans and advances to customers	80,410	0.12%	98,567	0.16%

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

(f) Non-bank Mainland China exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the Hong Kong Monetary Authority under the draft Banking (Disclosure) (Amendment) Rules 2014 with reference to the HKMA Return of Mainland Activities .

No restatement for 2013 comparative figures is necessary as the analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties under the prevailing Banking (Disclosure) Rules.

	2014		
	On-balance sheet exposures	*Off-balance sheet exposures*	*Total exposures*
Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	77,004	-	77,004
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	1,100,742	1,014,499	2,115,241
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	883	1,326	2,209
Other counterparties where the exposures are considered by the reporting institution to be non-bank China exposure	225,556	110	225,666
Total	1,404,185	1,015,935	2,420,120

Total assets after provision	139,406,319
On-balance sheet exposures as percentage of total assets	1.01%

(f) Non-bank Mainland China exposures (continued)

	2013		
	On-balance sheet exposures	*Off-balance sheet exposures*	*Total exposures*
Mainland entities	85,578	-	85,578
Companies and individuals outside Mainland where the credit is granted for use in Mainland	3,657	1,261	4,918
Other counterparties where the exposure is considered by the reporting institution to be non-bank China exposure	1,403,816	1,682,701	3,086,517
Total	1,493,051	1,683,962	3,177,013

(g) Repossessed assets

	2014	*2013*
Repossessed assets	-	-

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

(h) 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 balance sheet date can be analyzed as follows:

	2014	*2013*
Classes of exposures:		
Public sector entity	10,692	9,730
Bank	1,439,987	1,607,401
Corporate	9,058	10,944
Cash items	287	118
Regulatory retail	1,253,111	1,219,096
Residential mortgage loans	1,347,824	1,349,029
Other exposures which are not past due	232,095	177,986
Past due	14,026	17,422
Total capital requirements for on-balance sheet exposures	4,307,080	4,391,726
Trade-related contingencies	103	205
Forward forward deposits placed	5	6,134
Other commitments	20,257	21,741
Exchange rate contracts	11,814	7,405
Interest rate contracts	-	145
Total capital requirements for off-balance sheet exposures	32,179	35,630

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 standardized (operational risk) approach at the balance sheet date is:

	2014	*2013*
Capital charge for operational risk	723,426	701,230

(h) 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 balance sheet date is as follows:

2014	*Total exposures*	*After credit risk mitigation*		*Risk-weighted amounts*		*Total risk-weighted amounts*	*Total exposure covered by recognized collateral*	*Total exposure covered by recognized guarantees or credit derivative contracts*
		Rated	*Unrated*	*Rated*	*Unrated*			
On-balance sheet								
Sovereign	27,500,181	27,579,782	-	-	-	-	-	-
Public sector entity	-	668,259	-	133,652	-	133,652	-	-
Multinational development bank	1,125,471	1,125,471	-	-	-	-	-	-
Bank	40,455,399	40,109,172	346,227	17,927,583	72,255	17,999,838	-	-
Corporate	170,131	-	113,229	-	113,229	113,229	56,902	-
Cash items	599,064	-	599,064	-	3,588	3,588	-	-
Regulatory retail	24,359,082	-	20,885,190	-	15,663,893	15,663,893	3,336,315	137,577
Residential mortgage loans	38,704,325	-	38,173,643	-	16,847,800	16,847,800	-	530,682
Other exposures which are not past due	5,390,252	-	2,910,193	-	2,901,193	2,901,193	2,489,059	-
Past due	122,134	-	122,134	-	175,331	175,331	-	-
Off-balance sheet								
Direct credit substitutes	-	-	-	-	-	-	-	-
Trade-related contingencies	6,433	-	6,433	-	1,287	1,287	-	-
Forward forward deposits placed	320	-	320	-	64	64	-	-
Commitments that are unconditionally cancellable without prior notice	73,900,561	-	73,900,561	-	-	-	-	-
Other commitments	1,471,081	-	1,471,081	-	253,209	253,209	-	-
Exchange rate contracts	403,666	317,475	50,437	145,371	2,305	147,676	35,754	-
Interest rate contracts	-	-	-	-	-	-	-	-

The amount of credit exposures that are risk-weighted at 1250% is nil (2013: nil).

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

(iii) Credit risk exposures (continued)

2013	Total exposures	After credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts	Total exposure covered by recognized collateral	Total exposure covered by recognized guarantees or credit derivative contracts
		Rated	Unrated	Rated	Unrated			
On-balance sheet								
Sovereign	8,461,106	8,599,658	-	-	-	-	-	-
Public sector entity	-	608,141	-	121,628	-	121,628	-	-
Multinational development bank	1,037,545	1,037,545	-	-	-	-	-	-
Bank	52,207,849	51,859,535	348,314	20,018,033	74,479	20,092,512	-	-
Corporate	221,235	-	139,796	-	136,796	136,796	84,439	-
Cash items	621,534	-	621,534	-	1,469	1,469	-	-
Regulatory retail	23,828,773	-	20,318,270	-	15,238,702	15,238,702	3,357,077	153,426
Residential mortgage loans	38,017,261	-	37,562,546	-	16,862,868	16,862,868	-	454,715
Other exposures which are not past due	5,041,919	-	2,224,824	-	2,224,824	2,224,824	2,817,095	-
Past due	150,790	-	150,790	-	217,780	217,780	-	-
Off-balance sheet								
Direct credit substitutes	-	-	-	-	-	-	-	-
Trade-related contingencies	12,838	-	12,838	-	2,568	2,568	-	-
Forward forward deposits placed	383,401	381,820	1,581	76,364	316	76,680	-	-
Commitments that are unconditionally cancellable without prior notice	79,600,260	-	79,600,260	-	-	-	-	-
Other commitments	1,536,750	-	1,536,750	-	271,764	271,764	-	-
Exchange rate contracts	263,402	193,700	15,987	87,664	4,901	92,565	53,715	-
Interest rate contracts	3,631	3,631	-	1,816	-	1,816	-	-

(iv) Counterparty credit risk-related exposures

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

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

(iv) Counterparty credit risk-related exposures (continued)

Embedded derivatives of hybrid (combined) deposits

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

Stand-alone derivatives transactions

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

No internal capital and credit limit for counterparty are considered necessary for the fully mitigated transactions and transactions with group entities. Additional collaterals and provisions are also considered unnecessary.

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

	Banks and other financial institutions	*Others*	*Total*
2014			
Notional amounts	18,660,096	2,555,155	21,215,251
Credit equivalent amounts	360,332	43,334	403,666
Risk-weighted amounts	145,373	2,303	147,676
2013			
Notional amounts	17,744,152	3,811,401	21,555,553
Credit equivalent amounts	209,569	57,464	267,033
Risk-weighted amounts	93,559	822	94,381

An analysis of counterparty credit risk exposures is as follows:

	2014	*2013*
Gross total positive fair value	194,513	63,285
Credit equivalent amounts	403,666	267,033
Recognized collateral held: - Cash on deposits with the Company	35,754	53,715
Credit equivalents, net of recognized collateral held	367,912	213,318
Risk-weighted amounts	147,676	94,381

There were no counterparty credit risk exposures to sovereigns, public sector entities and corporates as at balance sheet date.

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

(v) Credit risk mitigation

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

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

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

For Margin and Securities backed Finance facilities, all collaterals are subject to daily mark-to-market revaluation; and margin calls must be initiated if the equity position has deteriorated to the margin trigger level. The frequency of revaluation may be intensified under the volatile market scenario.

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

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

(vi) Market risk

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

	2014	*2013*
Capital charge for:		
Interest rate exposures	-	12,169
Foreign exchange exposures	3,820	4,351
	3,820	16,520

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

(vii) Equity exposures

	2014	*2013*
Equity exposures	33,828	33,828

The Company's membership with investee companies amounting to HK$33,828 thousand (2013: HK$33,828 thousand), which are included in the Other Assets in the balance sheet are considered instrumental in daily banking and credit card operations.

The investment in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably are carried at cost. They are periodically evaluated for other-than-temporary impairment. Note 1(d) and (f) detail the accounting practices as well as impairment valuation methodologies, assumptions and practices for the equity investments. There were no significant changes to the practices applied in 2014.

(viii) Interest rate exposures

The Company's variations in earnings for significant upward and downward interest rate movements in accordance with the method used in the HKMA Interest Rate Return (MA(BS)12) are as follows:

Interest rate rises by 200 basis points:	(Decrease)/ Increase in earnings over the next 12 months
2014	
HKD	75,000
USD	(441,000)
2013	
HKD	55,000
USD	(369,000)

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

(ix) Currency risk

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

2014	*USD*	*RMB*	*AUD*
Spot assets	43,378,645	950,910	3,424,712
Spot liabilities	(32,853,753)	(1,852,615)	(9,278,351)
Forward purchases	2,496,051	935,779	9,076,485
Forward sales	(12,949,271)	(6,935)	(3,208,710)
Net long/(short) non-structural position	71,672	27,139	14,136

2013	*USD*	*RMB*	*AUD*
Spot assets	51,372,856	1,929,564	3,791,457
Spot liabilities	(39,885,700)	(1,901,811)	(11,008,810)
Forward purchases	1,535,416	3,941	10,487,791
Forward sales	(13,058,609)	(1,721)	(3,253,175)
Net long/(short) non-structural position	(36,037)	29,973	17,263

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

(i) Corporate governance

The Company is a wholly owned subsidiary of Citigroup Inc. and falls under the Citigroup corporate governance infrastructure. Under this structure, the Company is committed to high standards of corporate governance and its activities are monitored by the various committees which the Group has in place in Hong Kong and globally. The Company has fully complied throughout the year with the guideline in the Supervisory Policy Manual CG-1 “Corporate Governance of Locally Incorporated Authorized Institutions” issued by the HKMA.

Board committees

The Company has a number of committees, including the Management Committee, Credit Committee, Asset and Liability Committee, Audit Committee and Risk Management Committee.

(i) Corporate governance (continued)

(i) Management Committee

The Management Committee meets weekly to review the management, performance and operations of the Company. All business and function heads are members of the Management Committee.

(ii) Credit Committee

The Credit Committee meets monthly to review the booking quality and credit performance of the asset portfolios. The Chief Executive, Chief Financial Officer, Business Head, Credit Operation Directors, Consumer Risk Management Directors, Local Commercial Bank Credit Risk Directors and all Risk Managers of various asset products are members of the Credit Committee.

(iii) Asset and Liability Committee

The Asset and Liability Committee is responsible for the implementation and maintenance of the overall risk management framework relating to balance sheet structure, market risks, trading, funding and liquidity management across all Hong Kong's banking business. It recommends policy and guidelines to the Board. The Committee is comprised of the chief executive, the chief financial officer, the treasurer and the chief credit officer of all Hong Kong's banking business. It meets monthly or more often when conditions require.

(iv) Audit Committee

The Audit Committee meets regularly with the senior financial control, internal audit, legal and compliance management and the external auditors to review and discuss financial performance, consider the nature and scope of audit review and the effectiveness of the systems of internal control and compliance with local regulations. The Committee also discusses matters raised by the external auditors and ensures that all audit recommendations are implemented. The Committee comprises of all four independent non-executive directors as at December 31, 2014.

(v) Risk Management Committee

The Risk Management Committee is to assist the Board in fulfilling its oversight responsibility relating to the establishment and operation of a risk management system, including reviewing the adequacy of risk management practices for the material risks such as credit market, liquidity, legal compliance regulatory and operational risks, on a regular basis. The Committee comprises of all Independent Non-Executive Directors, Risk Management Head, the Chief Financial Officer and the Operations & Technology Head.