Citibank (Hong Kong) Limited

Financial Information Disclosure Statements

2013 Annual

CITIBANK (HONG KONG) LIMITED

We enclose herewith the Financial Information Disclosure Statements for the year ended December 31, 2013, 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 29, 2014

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, 2013.

2013 Full Year Results

For the period under review, operating income was HK$5,802 million, 3% higher than the year 2012.

Operating expenses decreased by 2% to HK$3,562 million.

Profit before taxation increased by 18% to HK$1,998 million.

Loan and advances to customers rose by HK$6 billion, or 11%, to HK$64 billion. Customer deposits increased by HK$1 billion, or 1%, to HK$105 billion reflecting stable growth in customer deposit balances.

Total assets remained at HK$140 billion.

STATEMENT OF COMPREHENSIVE INCOME

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

	Note	*2013*	*2012*
Interest income	2	3,225,620	3,602,152
Interest expense	3	(444,596)	(534,652)
Net interest income		**2,781,024**	**3,067,500**
Net fee and commission income	4	2,213,519	1,990,523
Net trading income	5	707,224	519,854
Net gain on disposal of available-for-sale financial assets		12,290	1,005
Dividend income from unlisted companies		3,513	2,360
Other operating income		84,858	47,931
Operating income		**5,802,428**	**5,629,173**
Staff costs		(1,105,721)	(1,204,672)
Premises & equipment expenses		(354,558)	(349,964)
Depreciation expenses		(67,529)	(69,832)
Other operating expenses		(2,034,220)	(2,020,370)
Operating expenses		**(3,562,028)**	**(3,644,838)**
Operating profit before impairment		**2,240,400**	**1,984,335**
Impairment losses on loans and advances	6	(242,448)	(288,503)
Profit before taxation		**1,997,952**	**1,695,832**
Taxation	7	(341,207)	(270,426)
Profit after taxation		**1,656,745**	**1,425,406**
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		15,507	59,754
Transfer to profit or loss on disposal of available-for-sale financial assets		(12,290)	(1,005)
Other comprehensive income for the year		(55,552)	58,749
Total comprehensive income for the year		1,601,193	1,484,155

BALANCE SHEET

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

	Note	*2013*	*2012*
Assets			
Cash and balances with banks and other financial institutions		2,169,223	6,010,901
Placements with banks and other financial institutions	8	49,385,357	51,452,386
Loans and advances to customers	9	64,141,808	57,927,165
Financial assets at fair value through profit or loss	10	9,656,596	16,755,253
Available-for-sale financial assets	11	11,005,264	5,116,252
Fixed assets	12	476,981	506,167
Intangible assets		194,873	199,578
Deferred tax assets		37,534	39,337
Other assets		2,448,926	2,129,816
		139,516,562	140,136,855
Liabilities			
Deposits and balances from banks and other financial institutions		12,307,666	15,572,115
Deposits from customers	13	104,617,900	103,345,242
Trading financial liabilities	14	432,364	48,868
Current taxation		48,257	101,948
Other liabilities		3,555,063	3,529,146
		120,961,250	122,597,319
Equity			
Share capital		7,348,440	7,348,440
Reserves	15	11,206,872	10,191,096
		18,555,312	17,539,536
		139,516,562	140,136,855

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	65,335,809	59,212,694
Deposits from customers	105,833,646	104,643,058

CASH FLOW STATEMENT

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

	Note	*2013*	*2012*
Operating activities			
Profit before taxation		1,997,952	1,695,832
Adjustments for:			
- Interest received on available-for-sale financial assets		(76,745)	(120,431)
- Dividends received		(3,513)	(2,360)
- Depreciation		67,529	69,832
- Amortization of intangible assets		31,956	42,944
- Impairment losses		242,448	288,503
- Net gain on disposal of available-for-sale financial assets		(12,290)	(1,005)
- Equity settled share based payment expense		2,227	4,862
- Write-off of fixed assets and intangible assets		26,252	41,200
- Expenses in respect of defined benefit plan		(58,769)	-
		2,217,047	2,019,377
(Increase)/decrease in operating assets:			
Financial assets at fair value through profit or loss		7,032,172	(2,277,200)
Loans and advances to customers		(6,457,091)	(5,754,998)
Gross placements with banks and other financial institutions with original maturity beyond three months		1,508,462	(3,722,802)
Other assets		(319,110)	(243,547)
		1,764,433	(11,998,547)
Increase/(decrease) in operating liabilities:			
Trading financial liabilities		383,496	(2,671)
Deposits from customers		1,272,658	3,232,556
Deposits from banks and other financial institutions		(1,803,271)	3,534,976
Other liabilities		18,814	825,619
		(128,303)	7,590,480
Cash (used in)/generated from operations		3,853,177	(2,388,690)

CASH FLOW STATEMENT (CONTINUED)

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

	Note	*2013*	*2012*
Income tax paid			
- Hong Kong Profits Tax paid		(392,857)	(332,868)
Net cash (used in)/generated from operating activities		3,460,320	(2,721,558)
Investing activities			
Payment for purchase of intangible assets		(40,890)	(116,788)
Payment for purchase of fixed assets		(50,956)	(41,165)
Proceeds from sale of available-for-sale financial assets with original maturity beyond three months		5,128,542	8,125,691
Payment for purchase of available-for-sale financial assets with original maturity beyond three months		(11,001,411)	(5,045,837)
Interest received on available-for-sale financial assets		76,745	120,431
Dividends received		3,513	2,360
Net cash (used in)/generated from investing activities		(5,884,457)	3,044,692
Financing activities			
Dividends paid to equity shareholder of the Company		(581,415)	-
Net cash used in financing activities		(581,415)	-
Net (decrease)/ increase in cash and cash equivalents		(3,005,552)	323,134
Cash and cash equivalents at January 1		26,104,417	25,781,283
Cash and cash equivalents at December 31	16	23,098,865	26,104,417
Cash flows from operating activities include:			
Interest received		3,253,035	3,584,956
Interest paid		(456,727)	(561,053)

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 and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Company is set out below.

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

(b) Basis of preparation of the financial statements

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

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

(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.

(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.

1 Significant accounting policies (continued)

(d) Financial instruments (continued)

(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.

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)).

1 Significant accounting policies (continued)

(d) Financial instruments (continued)

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.

(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.

1 Significant accounting policies (continued)

(d) Financial instruments (continued)

(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.

(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) Property and equipment

Property and equipment, including building, furniture, fixtures and fittings, office equipment and computers, are stated at cost less accumulated depreciation. Property and equipment other than building are depreciated on a straight-line basis over their estimated useful lives of 3 to 10 years. Building is depreciated on a straight-line basis over its estimated useful life of 50 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 in an equity 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 the 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

	2013	*2012*
Interest income on loans	2,511,700	2,450,829
Interest income on placements	516,971	798,792
Interest income on investments		
- Listed	60,554	111,055
- Unlisted	16,191	9,376
Interest income on financial instruments that are not measured at fair value through profit or loss	3,105,416	3,370,052
Interest income on financial assets designated at fair value through profit or loss		
- Listed	1,676	806
- Unlisted	118,528	231,294
Total interest income from all financial assets	3,225,620	3,602,152

Included in the above is interest income accrued on impaired financial assets of HK$8,050 thousand (2012: HK$8,188 thousand).

3 Interest expense

	2013	*2012*
Interest expense on deposits from customers	373,074	443,801
Interest expense on deposits from banks and other financial institutions	71,522	90,851
Interest expense on financial instruments that are not measured at fair value through profit or loss	444,596	534,652

4 Net fee and commission income

	2013	*2012*
Fee and commission income from retail banking	1,120,354	1,191,128
Fee and commission income from card business	1,330,337	1,163,092
Service fee from fellow subsidiaries	237,987	94,725
	2,688,678	2,448,945
Fee and commission expenses	(475,159)	(458,422)
	2,213,519	1,990,523

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

	2013	*2012*
Net gain from dealing in foreign exchange	711,492	523,137
Net gain from trading interest rate derivatives	207	1,392
Net (loss)/gain from financial assets designated at fair value through profit or loss	(4,475)	(4,675)
	707,224	519,854

6 Impairment losses on loans and advances

	2013	*2012*
Impairment losses charged on loans and advances		
Individually assessed:		
- New provisions (note 9(b))	375,730	339,396
- Releases (note 9(b))	(114,336)	(105,752)
	261,394	233,644
Collectively assessed:		
- New provisions (note 9(b))	-	54,859
- Releases (note 9(b))	(18,946)	-
	242,448	288,503

7 Taxation

	2013	*2012*
Provision for Hong Kong Profits Tax	339,615	284,690
Deferred taxation	1,592	(14,264)
	341,207	270,426

The provision for Hong Kong Profits Tax for 2013 is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits for the year.

8 Placements with banks and other financial institutions

	2013	*2012*
Maturing within one month	9,749,358	10,598,816
Maturing between one month and one year	22,035,358	15,886,509
Maturing after one year	17,600,641	24,967,061
	49,385,357	51,452,386

9 Loans and advances to customers

(a) Loans and advances to customers less impairment

	2013	*2012*
Gross loans and advances to customers	64,334,412	58,148,174
Trade bills	21,745	12,286
Less: Impairment allowances		
- individually assessed (note (b))	-	-
- collectively assessed (note (b))	(214,349)	(233,295)
	64,141,808	57,927,165

(b) Movement in impairment allowances on loans and advances

	Individually assessed	*Collectively assessed*	*Total*
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
At January 1, 2012	-	178,436	178,436
New provision (note 6)	339,396	54,859	394,255
Recoveries	105,752	-	105,752
Releases (note 6)	(105,752)	-	(105,752)
Amounts written off	(339,396)	-	(339,396)
At December 31, 2012	-	233,295	233,295

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

Loans and advances to customers for use in Hong Kong	*2013*	*2012*
Industrial, commercial and financial		
- Property investment	6,167,593	6,538,034
- Wholesale and retail trade	195,019	323,465
- Manufacturing	88,865	148,118
- Others	82,218	91,444
Individuals		
- Loans for the purchase of other residential properties	32,261,653	29,166,200
- Credit card advances	13,241,416	12,070,901
- Others	13,215,039	10,840,636
	65,251,803	59,178,798
Netting adjustment on account of foreign currency margin products	(1,215,746)	(1,297,815)
Total loans and advances to customers for use in Hong Kong	64,036,057	57,880,983
Loans and advances to customers for use outside Hong Kong	11,064	8,130
Trade finance	287,291	259,061
Total	64,334,412	58,148,174

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

	2013		*2012*	
	Amount	*% of total loans*	*Amount*	*% of total loans*
Overdue loans and advances to customers	50,239	0.08%	40,407	0.07%
Rescheduled loans and advances to customers	48,328	0.08%	61,481	0.11%
Gross impaired loans and advances to customers	98,567	0.16%	101,888	0.18%

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

	2013	2012
Financial assets designated at fair value through profit or loss		
Treasury bills (including exchange fund notes)	9,593,311	16,596,608
Debt securities	-	22,555
	9,593,311	16,619,163
Trading financial assets		
Positive fair value of derivatives (note 17b)	63,285	136,090
	9,656,596	16,755,253
Issued by:		
- Sovereigns	9,593,311	16,596,608
- Public sector entities	-	22,367
- Banks	-	188
	9,593,311	16,619,163

Analysed by place of listing:		
- Listed in Hong Kong	85,497	85,844
- Listed outside Hong Kong	-	188
- Unlisted	9,507,814	16,533,131
	9,593,311	16,619,163

11 Available-for-sale financial assets

	2013	2012
Exchange fund notes	8,099,049	3,034,037
Debt securities	2,906,215	2,082,215
	11,005,264	5,116,252
Issued by:		
- Sovereigns	8,099,049	3,034,037
- Banks	2,090,849	1,429,985
- Corporate	815,366	652,230
	11,005,264	5,116,252
Analysed by place of listing:		
- Listed outside Hong Kong	1,838,386	1,504,007
- Unlisted	9,166,878	3,612,245
	11,005,264	5,116,252

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, 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
Cost or valuation:					
At January 1, 2012	405,528	144,223	194,288	26,544	770,583
Additions	-	11,709	977	28,479	41,165
Transfer	-	1,192	18,260	(19,452)	-
Write-offs	-	(7,396)	(18,438)	(1,526)	(27,360)
At December 31, 2012	405,528	149,728	195,087	34,045	784,388
Accumulated depreciation:					
At January 1, 2012	56,099	88,983	81,437	-	226,519
Charge for the year	8,111	21,509	40,212	-	69,832
Write-offs	-	(6,530)	(11,600)	-	(18,130)
At December 31, 2012	64,210	103,962	110,049	-	278,221
Net book value:					
At December 31, 2012	341,318	45,766	85,038	34,045	506,167

13 Deposits from customers

	2013	*2012*
Demand deposits and current accounts	15,472,453	13,008,677
Savings deposits	58,282,518	57,821,770
Time, call and notice deposits	30,862,929	32,514,795
	104,617,900	103,345,242

14 Trading financial liabilities

	2013	*2012*
Negative fair value of derivatives (note 17b)	432,364	48,868

15 Reserves

	Available-for-sale revaluation reserve	*Retained profits*	*Capital reserves*	*Total*
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
At January 1, 2012	(53,659)	8,761,699	3,378	8,711,418
Changes in reserves for 2012:				
Share based payment transactions, net of tax	-	-	(4,477)	(4,477)
Total comprehensive income for the year	58,749	1,425,406	-	1,484,155
At December 31, 2012	5,090	10,187,105	(1,099)	10,191,096

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, 2013, the regulatory reserve is earmarked at HK$1,286,750 thousand (2012: HK$1,128,018 thousand).

(c) Distributability of reserves

At 31 December 2013, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$9,916,916 thousand (2012: HK$9,059,087 thousand).

(d) The directors did not propose any final dividend (2012: Nil) after the year end.

16 Cash and cash equivalents

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

	2013	*2012*
Cash and balances with banks and other financial institutions	2,169,223	6,010,901
Placements with banks and other financial institutions with original maturity within three months	17,383,185	17,941,752
Financial assets designated at fair value through profit or loss with original maturity within three months	4,107,975	4,174,460
	23,660,383	28,127,113
Less: Overdrafts	(561,518)	(2,022,696)
Cash and cash equivalents in the cash flow statement	23,098,865	26,104,417

16 Cash and cash equivalents (continued)

(b) Reconciliation with the balance sheet

	2013	*2012*
Cash and balances with banks and other financial institutions	2,169,223	6,010,901
Placements with banks and other financial institutions (note 8)	49,385,357	51,452,386
Available-for-sale financial assets (note 11)		
- Exchange fund notes (note 11)	8,099,049	3,034,037
- Debt securities (note 11)	2,906,215	2,082,215
Financial assets designated at fair value through profit or loss (note 10)		
- Treasury Bills (note 10)	9,593,311	16,596,608
- Debt securities (note 10)	-	22,555
Amounts shown in the balance sheet	72,153,155	79,198,702
Less: Amounts with an original maturity of beyond three months	(48,492,772)	(51,071,589)
Less: Overdrafts	(561,518)	(2,022,696)
Cash and cash equivalents in the cash flow statement	23,098,865	26,104,417

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.

	2013	*2012*
Interest rate derivatives		
Swaps	1,200,000	1,200,000
Currency derivatives		
Forwards and futures	16,672,821	16,820,783
Options purchased	3,552,011	6,160,580
Options written	3,552,011	6,160,580
	23,776,843	29,141,943
	24,976,843	30,341,943

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

	2013			*2012*		
	Fair value		*Credit risk weighted amount*	*Fair value*		*Credit risk weighted amount*
	Assets	*Liabilities*		*Assets*	*Liabilities*	
Interest rate derivatives	2,131	1,287	1,816	5,320	3,233	5,660
Currency derivatives	61,154	431,077	92,565	130,770	45,635	98,707
	63,285	432,364	94,381	136,090	48,868	104,367

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 150%.

The Company did not enter into any bilateral netting arrangements on derivative transactions during the year and accordingly these amounts are shown on a gross basis.

18 Contingent liabilities and commitments

	2013	*2012*
Contractual or notional amounts		
Other commitments		
- with an original maturity of not more than one year	261,601	-
- with an original maturity of more than one year	1,275,149	-
- which are unconditionally cancellable	79,600,260	78,348,618
Forward forward deposits placed	383,401	602,705
Trade-related contingencies	12,838	22,211
Direct credit substitutes	-	4,000
	81,533,249	78,977,534
Credit risk-weighted amounts	351,012	128,983

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 150%.

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

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

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

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.

2013	*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 and other financial institutions	2,169,223	2,169,223	-	-	-	-	-	-
Placements with banks and other financial institutions	49,385,357	-	9,749,358	12,708,994	9,326,364	17,600,641	-	-
Loans and advances to customers	64,141,808	8,971,937	557,044	1,178,344	7,599,554	16,834,852	28,798,431	201,646
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	11,141,160	15,578,358	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	-

19 Financial risk management (continued)

(c) Liquidity risk management (continued)

2012	*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 and other financial institutions	6,010,901	6,010,901	-	-	-	-	-	-
Placements with banks and other financial institutions	51,452,386	-	10,598,816	10,659,374	5,227,135	24,967,061	-	-
Loans and advances to customers	57,927,165	10,375,178	622,772	1,090,076	6,633,337	12,697,228	26,319,718	188,856
Financial assets at fair value through profit or loss	16,755,253	-	7,487,364	7,279,632	1,766,322	85,845	-	136,090
Available-for-sale financial assets	5,116,252	-	-	2,399,656	634,381	1,429,985	652,230	-
Non-interest bearing assets	2,874,898	-	-	-	-	-	-	2,874,898
	140,136,855	16,386,079	18,708,952	21,428,738	14,261,175	39,180,119	26,971,948	3,199,844
Liabilities								
Deposits and balances from banks and other financial institutions	15,572,115	2,022,697	1,400,441	101,918	1,322,407	10,724,652	-	-
Deposits from customers	103,345,242	37,580,165	55,977,849	8,280,659	1,505,569	1,000	-	-
Trading financial liabilities	48,868	-	-	-	-	-	-	48,868
Non-interest bearing liabilities	3,631,094	-	-	-	-	-	-	3,631,094
	122,597,319	39,602,862	57,378,290	8,382,577	2,827,976	10,725,652	-	3,679,962
Commitments								
Direct credit substitutes	4,000	-	4,000	-	-	-	-	-
Trade-related contingencies	22,211	4,299	10,624	6,782	506	-	-	-
Other commitments	78,348,618	77,995,013	321,957	31,648	-	-	-	-
Forward deposits placed	602,705	-	602,598	107	-	-	-	-
	78,977,534	77,999,312	939,179	38,537	506	-	-	-
Of which:								
Debt securities								
- included in financial assets at fair value through profit or	16,619,163	-	7,487,364	7,279,632	1,766,322	85,845	-	-
- included in available-for-sale financial assets	5,116,252	-	-	2,399,656	634,381	1,429,985	652,230	-
	21,735,415	-	7,487,364	9,679,288	2,400,703	1,515,830	652,230	-

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, 2013 and 2012. 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 2012 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*	
	2013	*2012*	*2013*	*2012*
Interest income	-	-	387,209	593,053
Interest expense	-	-	(71,512)	(90,778)
Fee and commission income	-	-	237,987	94,725
Net trading income	-	-	(5,045)	1,392
Other operating income	-	-	-	-
Operating expenses	-	-	(1,104,801)	(1,063,772)
For the year ended December 31	-	-	(556,162)	(465,380)

21 Material related party transactions (continued)

(a) Transactions with group companies (continued)

	Ultimate holding company		*Fellow subsidiaries*	
	2013	*2012*	*2013*	*2012*
Placement of deposits				
At January 1	-	-	48,627,911	41,333,638
At December 31	-	-	49,385,357	48,627,911
Average balance	-	-	49,006,634	44,980,775
Acceptance of deposits				
At January 1	-	-	15,689,627	11,143,005
At December 31	-	-	12,566,491	15,689,627
Average balance	-	-	14,128,059	13,416,316
Cash and balances with banks and financial institutions				
At January 1	-	-	2,828,480	1,622,507
At December 31	-	-	897,901	2,828,480
Average balance	-	-	1,863,191	2,225,494
Other assets				
At January 1	-	413,292	379,543	234,615
At December 31	-	-	694,720	379,543
Average balance	-	206,646	537,132	307,079
Other liabilities				
At January 1	22,751	15,047	97,405	96,237
At December 31	29,271	22,751	449,732	97,405
Average balance	26,011	18,899	273,569	96,821

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:

	2013	*2012*
Short-term employee benefits	37,491	54,296
Post-employment benefits	2,328	2,597
Equity compensation benefits	1,063	4,334
	40,882	61,227

Amounts disclosed above include remuneration totaling HK$9,949 thousand (2012: HK$18,815 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$56,800 thousand (2012: HK$63,541 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.

	2013	*2012*
At January 1	58,654	32,318
At December 31	62,256	58,654
Maximum balance	84,686	70,736

(d) Loans to officers

Loans to officers of the Company disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	2013	*2012*
Aggregate amount of relevant loans made by the Company outstanding at December 31	62,295	58,679
Maximum aggregate amount of relevant loans made by the Company outstanding during the year	84,740	70,780

UNAUDITED SUPPLEMENTARY INFORMATION

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

(a) Capital adequacy ratio

(i) Capital adequacy at December 31, 2013

The capital adequacy ratios were calculated in accordance with the Capital Rules. The ratios as of December 31, 2013 are compiled in accordance with the amended Capital Rules effective from January 1, 2013 for the implementation of the Basel III capital accord. 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, 2013
The Company's regulatory capital position was as follows:	
Common Equity Tier 1 (CET1) capital ratio	26.73%
Tier 1 capital ratio	26.73%
Total capital ratio	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.

(ii) Capital adequacy at December 31, 2012

The ratios as of December 31, 2012 were compiled in accordance with the pre-amended Capital Rules as in force immediately before January 1, 2013. Accordingly, the capital ratios of the two reporting dates are not directly comparable.

	At Dec 31, 2012
The Company's regulatory capital position was as follows:	
Capital adequacy ratio	27.16%
Core capital adequacy ratio	25.89%

(a) Capital adequacy ratio (continued)

(ii) Capital adequacy at December 31, 2012 (continued)

Components of capital base

	At Dec 31, 2012
***Core capital*:**	
Paid-up ordinary share capital	7,348,440
Published reserves	7,577,723
Profit and loss account	1,480,265
Total core capital before deductions	16,406,428
Less: Deductions from core capital	(239,977)
Total core capital after deductions	16,166,451
***Supplementary capital*:**	
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	2,768
Regulatory reserve for general banking risks	554,328
Collectively assessed impairment allowances	233,295
Total supplementary capital before deductions	790,391
Less: Deductions from supplementary capital	-
Total supplementary capital after deductions	790,391
Total capital base after deductions	16,956,842
Total deductions from the core capital and supplementary capital	(239,977)

(b) Liquidity ratio

	2013	*2012*
Average liquidity ratio for the year	35.96%	35.69%

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

	2013		*2012*	
	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	6,167,593	100%	6,538,034	100%
Wholesale and retail trade	195,019	60%	323,465	52%
Manufacturing	88,865	58%	148,118	56%
Others	82,218	40%	91,444	26%
Individuals				
Loans for the purchase of other residential properties	32,261,653	100%	29,166,200	100%
Credit card advances	13,241,416	-	12,070,901	-
Others	13,215,039	57%	10,840,636	50%
	65,251,803		59,178,798	
Netting adjustment on account of foreign currency margin products	(1,215,746)		(1,297,815)	
Total loans and advances to customers for use in Hong Kong	64,036,057		57,880,983	
Loans and advances to customers for use outside Hong Kong	11,064	11%	8,130	-
Trade finance	287,291	65%	259,061	47%
Total	64,334,412		58,148,174	

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:

	2013	*2012*
Overdue loans and advances to customers		
Individuals		
Loans for the purchase of other residential properties	10,870	784
Credit card advances	30,431	32,021
Others	8,742	6,490
Impaired loans and advances to customers		
Individuals		
Loans for the purchase of other residential properties	16,491	9,392
Credit card advances	30,431	32,021
Others	51,330	58,534
Collective impairment allowances		
Industrial, commercial and financial		
Property investment	1,118	2,232
Individuals		
Loans for the purchase of other residential properties	57	57
Credit card advances	136,585	142,280
Others	64,559	59,698
New impairment allowances		
Industrial, commercial and financial		
Property investment	(1,114)	-
Individuals		
Credit card advances	190,306	210,930
Others	76,807	148,245
Advances written off during the year		
Individuals		
Credit card advances	196,001	184,112
Others	71,945	137,045

(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.

	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

	2012			
	Banks and other financial institutions	*Public sector entities*	*Others*	*Total*
Asia Pacific excluding Hong Kong	2,430,638	4,189,904	4,615,324	11,235,866
North America	51,317,222	4,391,354	188,313	55,896,889

(e) Overdue and rescheduled assets

(i) Overdue loans and advances to customers

	2013		*2012*	
	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	49,730	0.08%	39,862	0.07%
- 1 year or less but over 6 months	-	-	-	-
- over 1 year	509	0.00%	545	0.00%
	50,239	0.08%	40,407	0.07%
Current market value of collateral held against the covered portion of overdue loans and advances to customers	35,818		6,140	
Covered portion of overdue loans and advances to customers	511		3,246	
Uncovered portion of overdue loans and advances to customers	49,728		37,161	
	50,239		40,407	

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

	2013		*2012*	
	Amount	*% of loans and advances to customers*	*Amount*	*% of loans and advances to customers*
Rescheduled loans and advances to customers	48,328	0.08%	61,481	0.11%

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

	2013		*2012*	
	Amount	*% of loans and advances to customers*	*Amount*	*% of loans and advances to customers*
Overdue loans and advances to customers	50,239	0.08%	40,407	0.07%
Rescheduled loans and advances to customers	48,328	0.08%	61,481	0.11%
Impaired loans and advances to customers	98,567	0.16%	101,888	0.18%

The covered portion of impaired 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.

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 following analysis of non-bank Mainland exposures is based on the categories contained in the HKMA Return of Analysis of Loans and Advances and Provisions (MA(BS)2A).

	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

	2012		
	On-balance sheet exposures	*Off-balance sheet exposures*	*Total exposures*
Mainland entities	-	-	-
Companies and individuals outside Mainland where the credit is granted for use in Mainland	8,130	21,921	30,051
Other counterparties where the exposure is considered by the reporting institution to be non-bank China exposure	1,575,372	2,144,531	3,719,903
Total	1,583,502	2,166,452	3,749,954

(g) Repossessed assets

	2013	*2012*
Repossessed assets	-	2,024

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:

	2013	*2012*
Classes of exposures:		
Sovereign	-	-
Public sector entity	9,730	27,074
Bank	1,607,401	1,682,489
Corporate	10,944	11,480
Cash items	118	185
Regulatory retail	1,219,096	1,080,957
Residential mortgage loans	1,349,029	1,305,156
Other exposures which are not past due	177,986	180,010
Past due	17,422	19,383
Total capital requirements for on-balance sheet exposures	4,391,726	4,306,734
Direct credit substitutes	-	320
Trade-related contingencies	205	355
Forward forward deposits placed	6,134	9,643
Commitments that are unconditionally cancelable without prior notice	-	-
Other commitments	21,741	-
Exchange rate contracts	7,405	7,897
Interest rate contracts	145	453
Total capital requirements for off-balance sheet exposures	35,630	18,668

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:

	2013	*2012*
Capital charge for operational risk	701,230	674,286

(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:

		After credit risk mitigation		*Risk-weighted amounts*				
2013	*Total exposures*	*Rated*	*Unrated*	*Rated*	*Unrated*	*Total risk-weighted amounts*	*Total exposure covered by recognized collateral*	*Total exposure covered by recognized guarantees or credit derivative contracts*
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	-	-

The amount of credit exposures that are risk-weighted at 1250% is nil (2012: nil).

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

(iii) Credit risk exposures (continued)

2012	*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	5,331,243	5,594,964	-	-	-	-	-	-
Public sector entity	492,243	953,726	-	338,419	-	338,419	-	-
Multilateral Development Bank	802,553	802,553	-	-	-	-	-	-
Bank	54,837,613	54,537,355	300,258	20,969,495	61,622	21,031,117	-	-
Corporate	246,765	-	143,501	-	143,501	143,501	103,264	-
Cash items	701,012	-	701,012	-	2,316	2,316	-	
Regulatory retail	20,947,113	-	18,015,944	-	13,511,958	13,511,958	2,797,614	133,555
Residential mortgage loans	35,379,746	-	35,051,819	-	16,314,446	16,314,446	-	327,927
Other exposures which are not past due	4,682,382	-	2,250,121	-	2,250,121	2,250,121	2,432,261	-
Past due	165,495	-	165,495	-	242,283	242,283	-	-
Off-balance sheet								
Direct credit substitutes	4,000		4,000		4,000	4,000	-	-
Trade-related contingencies	22,211	-	22,211	-	4,442	4,442	-	-
Forward forward deposits placed	602,705	602,414	291	120,483	58	120,541	-	-
Commitments that are unconditionally cancellable without prior notice	78,348,618	-	78,348,618	-	-	-	-	-
Other commitments	-	-	-	-	-	-	-	-
Exchange rate contracts	360,583	253,084	8,452	98,707	-	98,707	99,047	-
Interest rate contracts	11,320	11,320	-	5,660	-	5,660	-	-

(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*
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
2012			
Notional amounts	17,429,048	6,915,198	24,344,246
Credit equivalent amounts	259,511	112,392	371,903
Risk-weighted amounts	103,124	1,243	104,367

An analysis of counterparty credit risk exposures is as follows:

	2013	*2012*
Gross total positive fair value	63,285	136,089
Credit equivalent amounts	267,033	371,903
Recognized collateral held:		
- Cash on deposits with the Company	53,715	99,047
Credit equivalents, net of recognized collateral held	213,318	272,856
Risk-weighted amounts	94,381	104,367

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 residential mortgages, 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 residential 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.

	2013	*2012*
Capital charge for:		
Interest rate exposures	12,169	22,852
Foreign exchange exposures	4,351	6,010
	16,520	28,862

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

(vii) Equity exposures

	2013	*2012*
Equity exposures	33,828	33,828

The Company's membership with investee companies amounting to HK$33,828 thousand (2012: 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 2013.

(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
2013	
HKD	55,000
USD	(369,000)
2012	
HKD	(13,000)
USD	(338,000)

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

(viii) Interest rate exposures (continued)

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:

2013	*USD*	*GBP*	*RMB*	*CAD*	*AUD*	*NZD*	*GOL*	*MOP*
Equivalent in millions of HK$								
Spot assets	51,372,856	1,794,277	1,929,564	3,003,158	3,791,457	1,822,448	1,156	369
Spot liabilities	(39,885,700)	(1,734,873)	(1,901,811)	(3,008,773)	(11,008,810)	(1,828,833)	(403,984)	(18,785)
Forward purchases	1,535,416	24,031	3,941	24,149	10,487,791	104,501	407,387	-
Forward sales	(13,058,609)	(83,053)	(1,721)	(16,399)	(3,253,175)	(97,453)	(2,682)	-
Net option position	-	-	-	-	-	-	-	-
Net long/(short) non-structural position	(36,037)	382	29,973	2,135	17,263	663	1,877	(18,416)

2012	*USD*	*GBP*	*RMB*	*CAD*	*AUD*	*NZD*	*GOL*	*MOP*
Equivalent in millions of HK$								
Spot assets	54,177,879	2,220,782	871,499	2,885,988	4,866,934	1,454,724	712,504	616
Spot liabilities	(44,969,072)	(2,224,034)	(2,280,794)	(2,888,544)	(6,893,930)	(1,243,794)	(710,623)	(2,778)
Forward purchases	3,559,249	53,142	1,500,354	149,449	3,856,320	516,318	7,349	-
Forward sales	(11,346,940)	(49,504)	(62,309)	(144,927)	(1,793,153)	(724,864)	(6,635)	-
Net option position	-	-	-	-	-	-	-	-
Net long/(short) non-structural position	1,421,116	386	28,750	1,966	36,171	2,384	2,595	(2,162)

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 and Audit 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 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, 2013.