Citibank (Hong Kong) Limited

Financial Information Disclosure Statements

2018 Annual

CITIBANK (HONG KONG) LIMITED

We enclose herewith the Financial Information Disclosure Statement for the year ended December 31, 2018, which are prepared under the Banking (Disclosure) Rules made pursuant to Section 60A of the Banking Ordinance.

By Order of the Board

Ng Yin Yee Angel
Director and Chief Executive

April 30, 2019

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, 2018.

2018 Full Year Results

• Operating Income up 12% to HK$ 7,826 million (HK$ 7,004 million for 2017)

• Profit before taxation up 28% to HK$ 3,517 million (HK$ 2,740 million for 2017)

• Profit after tax up 31% to HK$ 3,035 million (HK$ 2,324 million for 2017)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Note	*2018*	*2017*
Interest income	3	4,598,684	3,652,347
Interest expense	3	(1,060,960)	(413,015)
Net interest income		**3,537,724**	**3,239,332**
Net fee and commission income	4	3,360,819	3,171,349
Net trading income	5	877,353	461,070
Dividend income from unlisted investment		4,052	3,068
Other operating income		45,908	128,723
Operating income		**7,825,856**	**7,003,542**
Staff costs		(1,205,002)	(1,241,219)
Premises & equipment expenses		(304,842)	(305,468)
Depreciation expenses		(48,757)	(42,485)
Other operating expenses		(2,633,541)	(2,546,232)
Operating expenses		**(4,192,142)**	**(4,135,404)**
Operating profit before impairment		**3,633,714**	**2,868,138**
Impairment losses	6	(116,551)	(127,773)
Profit before taxation		**3,517,163**	**2,740,365**
Taxation	7	(481,883)	(416,109)
Profit for the year		**3,035,280**	**2,324,256**
Other comprehensive income for the year, net of tax			
Items that will not be classified to profit or loss:			
Remeasurement of defined benefit plan		20	12,379
Items that may be classified subsequently to profit or loss:			
Changes in fair value of financial assets through other comphensive income		14,613	-
Changes in fair value of available-for-sale financial assets		-	170,042
Other comprehensive income for the year		**14,633**	**182,421**
Total comprehensive income for the year		**3,049,913**	**2,506,677**

STATEMENT OF FINANCIAL POSITION

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

	Note	*2018*	*2017*
Assets			
Cash and balances with banks, central banks and other financial institutions		9,280,836	8,444,652
Placements with banks and other financial institutions	8	11,338,603	5,411,932
Loans and advances	9	112,538,429	107,739,220
Trade bills		13,313	329
Financial assets at fair value through profit or loss	10	55,731,792	27,856,032
Financial assets at fair value through other comphensive income	11	31,220,807	-
Available-for-sale financial assets	12	-	27,442,763
Property, plant and equipment	13	382,991	407,025
Intangible assets		67,704	85,813
Deferred tax assets		55,816	53,554
Other assets		3,297,926	3,425,530
		223,928,217	180,866,850
Liabilities			
Deposits and balances from banks and other financial institutions		27,003,586	146,755
Deposits from customers	14	169,383,388	154,201,564
Trading financial liabilities	15	81,880	23,892
Current taxation		46,085	56,126
Other liabilities		4,418,848	5,017,124
		200,933,787	159,445,461
Equity			
Share capital		7,348,440	7,348,440
Reserves	16	15,645,990	14,072,949
		22,994,430	21,421,389
		223,928,217	180,866,850

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	83,178,792	74,587,169
Deposits from customers	170,060,783	154,968,513

CASH FLOW STATEMENT

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

	Note	*2018*	*2017*
Operating activities			
Profit before taxation		3,517,163	2,740,365
Adjustments for:			
- Interest received on financial assets at fair value through other comprehensive income		(379,957)	-
- Interest received on available-for-sale financial assets		-	(125,052)
- Dividends received		(4,052)	(3,068)
- Depreciation		48,634	42,485
- Amortization of intangible assets		30,141	33,972
- Impairment losses on loans and advances to customers		117,270	127,773
- Write-back of impairment losses on other financial instruments		(719)	-
- Equity-settled share-based payment expense		1,789	4,096
- Write-off of property, plant and equipment and intangible assets		5,396	17,829
- Remeasurement of defined benefit plan		20	12,379
		3,335,685	2,850,779
(Increase)/decrease in operating assets:			
Financial assets at fair value through profit or loss		(10,051,319)	(880,151)
Cash and balances with banks, central banks and other financial institutions with original maturity beyond three months		(790,494)	(348,125)
Loans and advances and trade bills		(5,067,165)	(13,177,703)
Placements with banks and other financial institutions with original maturity beyond three months		(6,086,606)	3,791,120
Other assets		127,588	(243,047)
		(21,867,996)	(10,857,906)
Increase/(decrease) in operating liabilities			
Trading financial liabilities		57,988	(168,359)
Deposits from customers		15,181,824	16,508,574
Deposits from banks and other financial institutions		26,894,063	(921,083)
Other liabilities		(602,445)	1,250,113
		41,531,430	16,669,245
Cash generated from operations		22,999,119	8,662,118

CASH FLOW STATEMENT (CONTINUED)

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

	Note	2018	2017
Income tax paid			
- Hong Kong Profits Tax paid		(473,326)	(345,352)
- Overseas Tax paid		(6,160)	(1,663)
Net cash generated from operating activities		22,519,633	8,315,103
Investing activities			
Payment for purchase of intangible assets		(12,032)	-
Payment for purchase of property, plant and equipment		(29,996)	(57,069)
Proceeds from sale of financial assets at fair value through other comprehensive income with original maturity beyond three months		27,230,320	-
Proceeds from sale of available-for-sale financial assets with original maturity beyond three months		-	15,185,197
Payment for purchase of financial assets at fair value through other comprehensive income with original maturity beyond three months		(31,202,217)	-
Payment for purchase of available-for-sale financial assets with original maturity beyond three months		-	(27,274,396)
Interest received on financial assets at fair value through other comprehensive income		379,957	-
Interest received on available-for-sale financial assets		-	125,052
Dividends received		4,052	3,068
Net cash used in investing activities		(3,629,916)	(12,018,148)
Financing activities			
Dividends paid to equity shareholder of the Company		(1,372,093)	(1,365,710)
Net cash used in financing activities		(1,372,093)	(1,365,710)
Net increase/(decrease) in cash and cash equivalents		17,517,624	(5,068,755)
Cash and cash equivalents at 1 January		25,902,302	30,971,057
Cash and cash equivalents at 31 December	17	43,419,926	25,902,302
Cash flows from operating activities include:			
Interest received		4,513,010	3,579,573
Interest paid		(859,810)	(402,367)

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 and principal place of business at Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

(a) Statement of compliance

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

The HKICPA has issued certain 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, measured at fair value through profit or loss and measured at fair value through other comprehensive income (see note 1(d)).

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

1 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements (continued)

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

(c) Intangible assets

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

Amortization 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. Amortization 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 amortized 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
- exclusivity right	4 years

Both the period and method of amortization are reviewed annually.

Intangible assets are not amortized 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 amortization of intangible assets with finite lives as set out above.

1 Significant accounting policies (continued)

(d) Financial instruments

(i) Initial recognition

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

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

(ii) Classification

(A) *Financial assets and liabilities – policy applicable from 1 January 2018*

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

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

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

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

All other financial assets are classified as measured at FVTPL.

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

1 Significant accounting policies (continued)

Business model assessment

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

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

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

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

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

1 Significant accounting policies (continued)

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

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

Reclassifications

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

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

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

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

1 Significant accounting policies (continued)

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

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

Financial liabilities

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

(B) Financial assets and liabilities - policy applicable before 1 January 2018

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 held at fair value through profit or loss are expensed immediately.

The Company recognizes 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 recognized 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.

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.

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.

1 Significant accounting policies (continued)

(d) Financial instruments (continued)

Categorization (continued)

Fair value through profit or loss (continued)

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 amortized cost using the effective interest method, less impairment losses, if any (see note 1(d)(vii)).

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. Unrealized gains and losses arising from changes in the fair value are recognized directly in the revaluation reserve, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognized in the profit or loss.

1 Significant accounting policies (continued)

(d) Financial instruments (continued)

Categorization (continued)

Available-for-sale financial assets (continued)

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 measured at fair value through profit or loss, are measured at amortized 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 financial position date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognized 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 financial position date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the financial position date.

1 Significant accounting policies (continued)

(d) Financial instruments (continued)

(iv) Derecognition

A financial asset is derecognized 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 derecognized when the obligation specified in the contract is discharged, cancelled or expires.

The Company uses the first-in first-out method to determine realized gains and losses to be recognized 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 recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(vi) Embedded derivatives

(A) Policy applicable from 1 January 2018

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

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

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

(B) Policy applicable before 1 January 2018

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 recognized in the profit or loss.

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

1 Significant accounting policies (continued)

(vii) ***Credit losses and impairment of assets***

(A) Policy applicable from 1 January 2018

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

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

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

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

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

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

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

Measurement of ECLs

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

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

Credit-impaired financial assets

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

1 Significant accounting policies (continued)

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

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments: generally, as a provision;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

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

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

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

1 Significant accounting policies (continued)

(B) Policy applicable prior to 1 January 2018

The carrying amount of the Company's assets are reviewed at each financial position 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 default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- disappearance of an active market for financial assets because of financial difficulties; and
- a significant or prolonged decline in the fair value of an investment instrument below its cost.

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of loans and receivables, which are measured at amortized 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 recognized in the profit or loss.

1 Significant accounting policies (continued)

(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.

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 recognized 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 realizable 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.

1 Significant accounting policies (continued)

(i) Loans and receivables (continued)

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 recognized 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.

(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 recognized directly in equity is removed from equity and is recognized in profit or loss. The amount of the cumulative loss that is recognized in the profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in profit or loss.

Impairment losses recognized 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 recognized 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 recognized. Reversals of impairment losses in such circumstances are recognized in the profit or loss.

1 Significant accounting policies (continued)

(e) *Property, plant and equipment*

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

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

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

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

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

(f) Impairment of non-financial assets

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

- property, plant and equipment; and
- intangible assets.

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 non-financial assets (continued)

Recognition of impairment losses

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

Reversals of impairment losses

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

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

(g) *Cash and cash equivalents*

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

(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 recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense/(income) on the net defined benefit liability/(asset) are recognized 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 recognized as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognized. Net interest expense/ (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/(asset). The discount rate is the yield at the statement of financial position date on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligations.

Remeasurements arising from defined benefit retirement plans are recognized in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)). 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 recognized at the earlier of when the Company can no longer withdraw the offer of those benefits and when it recognizes restructuring costs involving the payment of termination benefits.

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 recognizes the fair value of the awards at grant date as compensation expense over the vesting period with a corresponding credit in equity as a capital contribution from Citigroup. The Company’s liability to Citigroup under the SPAPA is remeasured annually until settlement date and any changes in value are recognized in equity.

(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 recognized in the profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

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

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

1 Significant accounting policies (continued)

(i) Income tax (continued)

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

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

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

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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.

1 Significant accounting policies (continued)

(j) Provisions and contingent liabilities

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

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

(k) Revenue recognition

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

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

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

(i) Interest income

(A) Policy applicable from 1 January 2018

Effective interest rate

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

- the gross carrying amount of the financial asset; or

- the amortised cost of the financial liability.

1 Significant accounting policies (continued)

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

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

Amortised cost and gross carrying amount

The ‘amortised cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

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

Calculation of interest income and expense

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

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

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

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

1 Significant accounting policies (continued)

(B) Policy applicable before 1 January 2018

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

The effective interest method is a method of calculating the amortized 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 capitalized and amortized 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 amortized 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 recognized 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 recognized 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 recognized on a time-apportioned basis on the assets under management outstanding and at the rate applicable. For the card business, commission income is recognized in the financial statements on the date when the sales transaction is recorded, at which time the income is deemed to be earned.

(v) Service fee income

Service fee income is recognized when services are rendered.

1 Significant accounting policies (continued)

(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 statement of financial position date. Exchange gains and losses are recognized in the profit or loss.

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

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

(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.
- (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).
- (viii) The entity, or any member of a group of which it is a part, provides key management services to the Compnay or the Company's parent.

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

2 Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Company. Of these, the following developments are relevant to the Company's financial statements:

(i) HKFRS 9, Financial instruments
(ii) HKFRS 15, Revenue from contracts with customers
(iii) HK(IFRIC) 22, Foreign currency transactions and advance consideration

The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, Prepayment features with negative compensation which have been adopted at the same time as HKFRS 9.

(i) *HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation*

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Company has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Company has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018:

Retained earnings	
Closing balance under HKAS 39 (31 December, 2017)	13,921,880
Reclassifications under HKFRS 9	196,173
Recognition of expected credit losses under HKFRS 9	(139,742)
Related tax adjustments	17,768
Opening balance under HKFRS 9 (1 January, 2018)	13,996,079

Fair value reserve	
Closing balance under HKAS 39 (31 December, 2017)	161,682
Reclassification of investment securities (equity) from available-for-sale financial assets to financial assets at fair value through profit or loss	(178,616)
Recognition of expected credit losses under HKFRS 9 for debt securities measure at fair value through other comprehensive income	2,018
Opening balance under HKFRS 9 (1 January, 2018)	(14,916)

2 Changes in accounting policies (continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the original measurement categories for each class of the Company's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9:

	HKAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount at 1 January 2018
Financial assets carried at amortised cost				
Cash and balances with banks, central banks and other financial institutions	8,444,652	-	(24)	8,444,628
Placements with banks and other financial institutions	5,411,932	-	(16)	5,411,916
Loans and advances	107,739,220	-	(137,673)	107,601,547
Trade bills	329	-	-	329
Other assets	3,425,530	-	(11)	3,425,519
	125,021,663	-	(137,724)	124,883,939
Financial assets carried at FVOCI				
Exchange fund notes	-	24,327,616	-	24,327,616
Debt securities	-	2,902,704	-	2,902,704
	-	27,230,320	-	27,230,320
Financial assets carried at FVTPL (note)				
Treasury bills	27,758,174	-	-	27,758,174
Equity securities	-	212,443	17,557	230,000
Positive fair value of derivatives	97,858	-	-	97,858
	27,856,032	212,443	17,557	28,086,032
Financial assets classified as available-for-sale under HKAS 39 (note)	27,442,763	(27,442,763)	-	-

2 Changes in accounting policies (continued)

Note:
Under HKAS 39, unlisted equity securities were classified as available-for-sale financial assets. They are classified as at FVTPL under HKFRS 9.

For an explanation of how the Company classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see accounting policy note 1(d).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Company applies the new ECL model to the following items:
- financial assets measured at amortised cost including cash and bank balances, advances to customers, amount due from fellow subsidiaries, prepayments, deposits and other receivables and tax recoverable; and

- debt securities measured at FVOCI.

For further details on the Company's accounting policy for accounting for credit losses, see accounting policy note 1(d).
The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018:

Loss allowance at 31 December 2017 under HKAS 39	227,996
Additional credit loss recognised at 1 January 2018 on:	
- Cash and balances with banks, central banks and other financial institutions	24
- Placements with banks and other financial institutions	16
- Loans and advances	137,673
- Financial assets at fair value through other comprehensive income	2,018
- Other assets	11
Loss allowance at 1 January 2018 under HKFRS 9	367,738

2 Changes in accounting policies (continued)

Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held; and
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) *HKFRS 15, Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable used of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

There is no significant impact on the Company’s financial statements upon the initial application of HKFRS 15.

(iii) *HK(IFRIC) 22, Foreign currency transactions and advance consideration*

This Interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Company.

3 Interest income and interest expense

(a) Interest income

	2018	*2017*
Interest income on loans to customers	2,857,235	2,627,051
Interest income on placements with banks and other financial institutions	860,628	653,978
Interest income on investments		
- Listed	4,711	6,916
- Unlisted	375,246	118,136
Interest income on financial instruments that are not measured at fair value through profit or loss	4,097,820	3,406,081
Interest income on financial assets designated at fair value through profit or loss		
- Listed	1,917	1,715
- Unlisted	498,947	244,551
Total interest income from all financial assets	4,598,684	3,652,347

Included in the above is interest income accrued on impaired financial assets of HK$3,185 thousand (2017: HK$4,346 thousand).

(b) Interest expense

	2018	*2017*
Interest expense on deposits from customers	888,673	400,225
Interest expense on deposits from banks and other financial institutions	172,287	12,790
Interest expense on financial instruments that are not measured at fair value through profit or loss	1,060,960	413,015

4 Fee and commission income

	2018	*2017*
Fee and commission income from retail banking	1,627,861	1,569,630
Fee and commission income from card business	996,030	1,200,186
Service fee from group companies	855,888	791,983
	3,479,779	3,561,799
Fee and commission expenses	(118,960)	(390,450)
	3,360,819	3,171,349

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 measured at fair value through profit or loss. The amounts also reflect sale of certain businesses that were sold to the third parties.

5 Net trading income

	2018	*2017*
Net gain from dealing in foreign exchange	509,863	464,689
Net gain/(loss) from financial assets measured at fair value through profit or loss	367,490	(3,619)
	877,353	461,070

As a result of adoption of HKFRS 9, change in fair value for equity securities are reported through statement of profit or loss rather than through other comprehensive income. The equity investment are non-marketable in nature held for strategic purposes.

6 Impairment losses

	2018
Impairment losses	
Cash and balances with banks and other financial institutions	57
Placements with banks and other financial institutions	99
Loans and advances with banks	29
Loans and advances with customers	117,270
Financial assets at fair value through other comphensive income	(909)
Other assets	5
	116,551

	2017
Individually assessed:	
- New provisions	316,496
- Releases	(114,536)
	201,960
Collectively assessed:	
- New provisions	-
- Releases	(74,187)
	(74,187)
	127,773

7 Taxation

	2018	*2017*
Provision for Hong Kong Profits Tax	463,285	405,486
Overseas Taxation	6,160	1,663
Deferred Taxation	12,438	8,960
	481,883	416,109

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year.

8 Placements with banks and other financial institutions

	2018	*2017*
Maturing between one month and one year	11,338,718	5,411,932
Less: Impairment allowances		
- Stage 1	(115)	-
- Stage 2	-	-
- Stage 3	-	-
	11,338,603	5,411,932

9 Loans and advances

(a) *Loans and advances less impairment*

	2018	*2017*
Gross loans and advances to customers	82,842,316	74,048,216
Less: Impairment allowances		
- Stage 1	(151,180)	-
- Stage 2	(159,568)	
- Stage 3	(30,171)	-
- individually assessed	-	-
- collectively assessed	-	(227,996)
	82,501,397	73,820,220
Gross loans and advances to banks	30,037,189	33,919,000
Less: Impairment allowances		
- Stage 1	(157)	-
- Stage 2	-	-
- Stage 3	-	-
	112,538,429	107,739,220

(b) *Movement in impairment allowances on loans and advances*

The following tables show reconciliations from the opening to the closing balance of the impairment allowances on loans and advances to customers. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 1(d)(vii). Amounts for years ended 31 December 2017 reflect measurement basis under HKAS 39.

	2018			
	12-month ECL (Stage 1)	*Lifetime ECL not credit-impaired (Stage 2)*	*Lifetime ECL credit-impaired (Stage 3)*	*Total*
At January 1, 2018	169,704	163,777	32,060	365,541
Transfer to 12-month ECL	95,203	(93,650)	(1,553)	-
Transfer to lifetime ECL not credit-impaired	(5,302)	5,314	(12)	-
Transfer to lifetime ECL credit-impaired	(18,455)	(35,819)	54,274	-
Impairment losses charged to income statement:				
Net remeasurement of loss allowance	(91,559)	103,607	106,524	118,572
New financial assets originated or puchased, assets derecognised, repayment and futher lending	1,589	16,339	(19,230)	(1,302)
Amounts written off	-	-	(258,171)	(258,171)
Recoveries of loans and advances written off	-	-	116,279	116,279
At December 31, 2018	151,180	159,568	30,171	340,919

	2017		
	Individually assessed	*Collectively assessed*	*Total*
At January 1, 2017	-	302,183	302,183
New provision	316,496	-	316,496
Recoveries	114,536	-	114,536
Releases	(114,536)	(74,187)	(188,723)
Amounts written off	(316,496)	-	(316,496)
At December 31, 2017	-	227,996	227,996

9 Loans and advances (continued)

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

Loans and advances to customers for use in Hong Kong	*2018*	*2017*
Industrial, commercial and financial		
- Property investment	3,268,466	3,663,045
- Wholesale and retail trade	176,815	304,725
- Manufacturing	30,171	57,203
- Others	77,808	134,434
Individuals		
- Loans for the purchase of other residential properties	46,146,603	38,866,706
- Credit card advances	13,389,982	12,755,573
- Others	19,966,071	18,946,218
	83,055,916	74,727,904
Netting adjustment on account of foreign currency margin products	(677,395)	(766,949)
Total loans and advances to customers for use in Hong Kong	82,378,521	73,960,955
Loans and advances to customers for use outside Hong Kong	10,506	11,708
Trade finance	453,289	75,553
Total	82,842,316	74,048,216

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*

	2018		*2017*	
	Amount	*% of total loans and advances to customers*	*Amount*	*% of total loans and advances to customers*
Overdue loans and advances to customers	36,194	0.04%	37,143	0.05%
Rescheduled loans and advances to customers	21,340	0.03%	21,853	0.03%
Gross impaired loans and advances to customers	57,534	0.07%	58,996	0.08%

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

10 Financial assets at fair value through profit or loss

	2018	*2017*
Financial assets designated at fair value through profit or loss		
Treasury bills (including exchange fund notes)	55,086,603	27,758,174
Equity securities	596,000	-
Trading financial assets		
Positive fair value of derivatives (note 18b)	49,189	97,858
	55,731,792	27,856,032
Issued by:		
- Sovereigns	55,086,603	27,758,174
- Corporates	596,000	-
	55,682,603	27,758,174
Analyzed by place of listing:		
- Listed in Hong Kong	47,617	59,723
- Unlisted	55,634,986	27,698,451
	55,682,603	27,758,174

11 Financial assets at fair value through other comprehensive income

	2018	*2017*
Exchange fund notes	28,862,824	-
Debt securities	2,357,983	-
	31,220,807	-
Issued by:		
- Sovereigns	28,862,824	-
- Corporate	2,208,742	-
- Banks	149,241	-
	31,220,807	-
Analyzed by place of listing:		
- Unlisted	31,220,807	-
	31,220,807	-

12 Available-for-sale financial assets

	2018	*2017*
Exchange fund notes	-	24,327,616
Equity securities	-	212,443
Debt securities	-	2,902,704
	-	27,442,763
Issued by:		
- Sovereigns	-	24,327,616
- Corporate	-	2,645,757
- Banks	-	469,390
	-	27,442,763
Analyzed by place of listing:		
- Listed outside Hong Kong	-	304,783
- Unlisted	-	27,137,980
	-	27,442,763

13 Property, plant and equipment

	Buildings held for own use carried at cost	*Plant, manchinery and other assets*	*Installations*	*Construction in progress*	*Total preperty, plant and equipment*
Cost or valuation:					
At January 1, 2018	405,528	141,383	231,126	27,400	805,437
Additions	-	3,342	-	26,654	29,996
Transfer	-	1,768	37,683	(39,451)	-
Write-offs	-	(25)		(5,396)	(5,421)
At December 31, 2018	405,528	146,468	268,809	9,207	830,012
Accumulated depreciation:					
At January 1, 2018	104,763	114,270	179,379	-	398,412
Charge for the year	8,111	10,739	29,784	-	48,634
Write-offs	-	(25)	-	-	(25)
At December 31, 2018	112,874	124,984	209,163	-	447,021
Net book value:					
At December 31, 2018	292,654	21,484	59,646	9,207	382,991

	Buildings held for own use carried at cost	*Plant, manchinery and other assets*	*Installations*	*Construction in progress*	*Total preperty, plant and equipment*
Cost or valuation:					
At January 1, 2017	405,528	160,904	218,566	33,001	817,999
Additions	-	13,890	4,693	38,486	57,069
Transfer	-	3,167	29,691	(32,858)	-
Write-offs	-	(36,578)	(21,824)	(11,229)	(69,631)
At December 31, 2017	405,528	141,383	231,126	27,400	805,437
Accumulated depreciation:					
At January 1, 2017	96,652	133,123	177,954	-	407,729
Charge for the year	8,111	11,125	23,249	-	42,485
Write-offs	-	(29,978)	(21,824)	-	(51,802)
At December 31, 2017	104,763	114,270	179,379	-	398,412
Net book value:					
At December 31, 2017	300,765	27,113	51,747	27,400	407,025

14 Deposits from customers

	2018	*2017*
Demand deposits and current accounts	31,798,387	35,125,097
Savings deposits	80,540,712	87,836,273
Time, call and notice deposits	57,044,289	31,240,194
	169,383,388	154,201,564

15 Trading financial liabilities

	2018	*2017*
Negative fair value of derivatives (note 18b)	81,880	23,892

16 Reserves

	Capital reserves	*Fair value reserve*	*Retained profits*	*Total*
At January 1, 2018	(10,613)	161,682	13,921,880	14,072,949
Impact on initial application of HKFRS 9	-	(176,598)	74,199	(102,399)
Changes in reserves for 2018:				
Share-based payment transactions, net of tax	(2,380)	-	-	(2,380)
Total comprehensive income for the year	-	14,613	3,035,300	3,049,913
Dividend declared in respect of the current year	-	-	(1,372,093)	(1,372,093)
At December 31, 2018	(12,993)	(303)	15,659,286	15,645,990

	Capital reserves	*Fair value reserve*	*Retained profits*	*Total*
At January 1, 2017	(9,740)	(8,360)	12,950,955	12,932,855
Changes in reserves for 2017:				
Share-based payment transactions, net of tax	(873)	-	-	(873)
Total comprehensive income for the year	-	170,042	2,336,635	2,506,677
Dividend declared in respect of the current year	-	-	(1,365,710)	(1,365,710)
At December 31, 2017	(10,613)	161,682	13,921,880	14,072,949

16 Reserves (continued)

(a) Nature and purpose of reserves

Fair value reserve

(A) Policy applicable from 1 January 2018

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

(B) Policy applicable before 1 January 2018

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

Capital reserves

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

(b) Regulatory reserve

To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Company has earmarked a regulatory reserve directly from retained earnings. As of December 31, 2018, the effect of this requirement is to reduce the amount of reserves which can be distributed to equity shareholders by $783,361 thousand (2017: $998,973 thousand).

(c) Distributability of reserves

At 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$14,304,484 thousand (2017: HK$12,899,578 thousand).

(d) The directors did not propose any final dividend (2017: $Nil) after the year end.

17 Cash and cash equivalents

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

	2018	*2017*
Cash and balances with banks, central banks and other financial institutions with original maturity within three months	7,575,452	7,529,681
Placements with banks and other financial institutions with original maturity within three months	48,385	208,205
Financial assets designated at fair value through profit or loss with original maturity within three months	35,816,654	18,222,213
	43,440,491	25,960,099
Less: Overdrafts	(20,565)	(57,797)
Cash and cash equivalents in the cash flow statement	43,419,926	25,902,302

(b) Reconciliation with the statement of financial position

	2018	*2017*
Cash and balances with banks, central banks and other financial institutions	9,280,917	8,444,652
Placements with banks and other financial institutions	11,338,718	5,411,932
Available-for-sale financial assets		
- Exchange fund notes	-	24,327,616
- Debt securities	-	2,902,704
- Equity securities	-	212,443
Financial assets designated at fair value through profit or loss		
- Treasury bills	55,086,603	27,758,174
- Equity securities	596,000	-
Financial assets designated at fair value through other comprehensive income		
- Exchange fund notes	28,862,824	-
- Debt securities	2,357,983	-
Amounts shown in the statement of financial position	107,523,045	69,057,521
Less: Amounts with an original maturity of beyond three months	(64,082,554)	(43,097,422)
Less: Overdrafts	(20,565)	(57,797)
Cash and cash equivalents in the cash flow statement	43,419,926	25,902,302

18 Derivatives

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

(a) Notional amount of derivatives

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

	2018	*2017*
Currency derivatives		
Forwards and futures	8,549,000	11,153,711
Options purchased	2,716,649	2,327,212
Options written	2,716,649	2,327,212
	13,982,298	15,808,135

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

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

	2018			*2017*		
	Fair value		*Credit risk weighted amount*	*Fair value*		*Credit risk weighted amount*
	Assets	*Liabilities*		*Assets*	*Liabilities*	
Currency derivatives	49,189	81,880	41,928	97,858	23,892	63,056

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

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

19 Contingent liabilities and commitments

	2018	*2017*
Contractual or notional amounts		
Trade-related contingencies	-	3,573
Forward forward deposits placed	1,240	1,286
Other commitments		
- with an original maturity of not more than one year	1,764,636	888,275
- with an original maturity of more than one year	791,120	903,212
- which are unconditionally cancellable	76,287,648	73,189,122
	78,844,644	74,985,468
Credit risk weighted amounts	313,541	243,057

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

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

20 Financial risk management

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

- credit risk: risk of loss resulting from the decline in credit quality (or downgrade risk) or failure of a borrower, counterparty, third party or issuer to honor its financial or contractual obligations.
- market risk: risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and market risk comprises currency risk, interest rate risk and other price risk.
- liquidity and funding risk: risk that the Company is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments.
- operational risk: risk arising from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputation loss.

20 Financial risk management (continued)

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

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

- formulating credit policies on new acquisition, portfolio management, collection and recovery for credit portfolios;
- developing risk acceptance criteria for portfolios towards segments, sectors, industries, usages and 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 many 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.

20 Financial risk management (continued)

(a) Credit risk management (continued)

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 analyzes of risks with respect to different products and types of customers. The Company has established methodologies on risk assessment for new product launch as well as periodic review of the terms of existing products, so as to achieve the desired customer profiles.

Credit risk for treasury transactions

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

Credit-related commitments

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

Master netting arrangements

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

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 but is concentrated in Hong Kong.

20 Financial risk management (continued)

(b) Market risk management

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

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

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

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

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

(i) Currency risk

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

20 Financial risk management (continued)

(b) Market risk management (continued)

(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 Market Risk Management, including interest rate gap limits.

(c) Liquidity risk mangement

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

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

20 Financial risk management (continued)

(c) Liquidity risk mangement (continued)

Policies and Procedures

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

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

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

- Net intragroup balance
- 3rd party liquid assets
- Liquidity ratios
- Loan to deposit ratio
- Daily S2
- Monthly S4
- Resolution Liquidity Adequacy and Positioning ("RLAP")

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

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

20 Financial risk management (continued)

(c) Liquidity risk management (continued)

Stress Test

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

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

A wide range of liquidity events over a full year, some may cover an intense stress period of one month, and still other time frames may be appropriate. These potential liquidity events are useful to ascertain potential mismatches between liquidity sources and uses over a variety of time horizons by tenor buckets. Liquidity limits are set accordingly. To monitor the liquidity of the Bank, those stress tests and potential mismatches may be calculated with varying frequencies, with several important tests performed daily. All assumptions used in the stress scenarios must be approved under the process of “Annual Funding and Liquidity Plan”.

S2-“Highly Stressed Market Disruption Scenario” is Citi’s primary long term stress metrics. Assumes market, credit and economic conditions are moderately to high stressed with potential further deterioration, and is used to measure a 12 month survival, i.e. CHKL must maintain sufficient liquidity to meet all maturing obligations with 12 months under the S2 stress scenario. S2 is prepared daily for all major currencies including HKD, CNY and G10 currencies. Other minor currencies are included in the S2 Universal.

S4 - “Institution Specific and Local Market Scenario” is represented a significant local market disruption such as a collapse of a major local bank, or an abrupt change in the regulatory or political environment, which will affect the liquidity available to that market. It requires a self-sufficiency period over a 3 month period is performed in a monthly basis. In addition to monitoring by tenor bucket, the day by day S4 position from overnight to Day 15 is also exhibited for monitoring to ensure daily surplus liquidity is maintained.

20 Financial risk management (continued)

(c) Liquidity risk management (continued)

Resolution Liquidity Adequacy and Positioning (RLAP) -is a ratio based on internal stressed outflows assumptions and internal definition of liquidity resources. It is designed to ensure there are sufficient liquidity resources to withstand outflows associated with Resolution scenario with a 30 day survival period under a severely stress market condition. Assumptions are internally developed and expected to be closely aligned with the old LCR Prime and ratio is produced and monitor on daily basis.

Encumbered and unencumbered assets

An asset is defined as encumbered, from a liquidity perspective, if it has been pledged as collateral against an existing liability, and as a result is no longer available to the bank to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. An asset is therefore categorized as unencumbered if it has not been pledged against an existing liability. As of December 31, 2018, High Quality Liquid Asset (HQLA) held by the bank is mostly unencumbered assets, except a small portion of Hong Kong exchange fund bills and Chinese government bond which are set aside for intraday liquidity needs.

The Company maintains a sufficient cushion of HQLA which can be sold or used as collateral to provide liquidity under stress period. The compositions of the HQLA are mainly in government securities together with a small portion of high investment grade credit securities. The size of the liquidity cushion was approximately HK$83 billion as of December 31, 2018.

Citibank's credit ratings as at the end of December, 2018 were A+(S&P) and A1 (Moody's). Given that Citibank other entities are our only counterparties for these derivative transactions and cash positions are held or posted as collateral according to the mark to market of the contracts. Citibank's credit ratings downgrade has minimal impact on Bank's derivative collateral requirement.

20 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 statement of financial position date to the contractual maturity date.

2018	*Total*	*Repayable on demand*	*1 month or less*	*Over 1 month to 3 months*	*Over 3 months to 1 year*	*Over 1 year to 5 years*	*Over 5 years*	*Undated or overdue*
Assets								
Cash and balances with banks, central banks and other financial institutions	9,280,836	2,901,430	6,379,406	-	-	-	-	-
Placements with banks and other financial institutions	11,338,603	-	-	2,596,110	8,742,493	-	-	-
Loans and advances	112,538,429	9,178,799	605,044	1,662,500	13,852,941	48,740,326	38,380,494	118,325
Trade bills	13,313	-	4,190	9,123	-	-	-	-
Financial assets at fair value through profit or loss	55,731,792	-	20,590,259	29,066,997	5,429,347	-	-	645,189
- included in financial assets at fair value through other comprehensive income	31,220,807	-	2,748,855	12,978,222	13,284,988	2,208,742	-	-
Non-interest bearing assets	3,804,437	-	-	-	-	-	-	3,804,437
	223,928,217	12,080,229	30,327,754	46,312,952	41,309,769	50,949,068	38,380,494	4,567,951
Liabilities								
Deposits and balances from banks and other financial institutions	27,003,586	20,565	21,567,154	212,329	955,479	4,248,059	-	-
Deposits from customers	169,383,388	112,339,099	30,696,968	22,605,735	3,740,803	783	-	-
Trading financial liabilities	81,880	-	-	-	-	-	-	81,880
Non-interest bearing liabilities	4,464,933	-	-	-	-	-	-	4,464,933
	200,933,787	112,359,664	52,264,122	22,818,064	4,696,282	4,248,842	-	4,546,813
Commitments								
Other commitments	78,843,404	77,078,768	1,520,438	241,198	3,000	-	-	-
Forward deposits placed	1,240	-	349	891	-	-	-	-
	78,844,644	77,078,768	1,520,787	242,089	3,000	-	-	-
Of which:								
Debt securities								
- included in financial assets at fair value through profit or loss	55,086,603	-	20,590,259	29,066,997	5,429,347	-	-	-
- included in financial assets at fair value through other comprehensive income	31,220,807	-	2,748,855	12,978,222	13,284,988	2,208,742	-	-
	86,307,410	-	23,339,114	42,045,219	18,714,335	2,208,742	-	-

20 Financial risk management (continued)

(c) Liquidity risk management (continued)

2017	Total	Repayable on demand	1 month or less	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Undated or overdue
Assets								
Cash and balances with banks, central banks and other financial institutions	8,444,652	4,497,772	3,946,880	-	-	-	-	-
Placements with banks and other financial institutions	5,411,932	-	-	1,422,941	3,988,991	-	-	-
Loans and advances	107,739,220	9,595,334	374,173	1,341,394	12,621,874	51,305,732	32,387,003	113,710
Trade bills	329	-	-	329	-	-	-	-
Financial assets at fair value through profit or loss	27,856,032	-	13,237,712	13,079,460	1,441,002	-	-	97,858
Available-for-sale financial assets	27,442,763	-	1,499,583	8,740,219	14,392,597	2,597,921	-	212,443
Non-interest bearing assets	3,971,922	-	-	-	-	-	-	3,971,922
	180,866,850	14,093,106	19,058,348	24,584,343	32,444,464	53,903,653	32,387,003	4,395,933
Liabilities								
Deposits and balances from banks and other financial institutions	146,755	57,797	88,958	-	-	-	-	-
Deposits from customers	154,201,564	122,961,370	18,713,444	11,070,096	1,455,873	781	-	-
Trading financial liabilities	23,892	-	-	-	-	-	-	23,892
Non-interest bearing liabilities	5,073,250	-	-	-	-	-	-	5,073,250
	159,445,461	123,019,167	18,802,402	11,070,096	1,455,873	781	-	5,097,142
Commitments								
Trade-related contingencies	3,573	-	1,241	2,332	-	-	-	-
Other commitments	74,980,609	74,210,451	636,072	124,692	9,394	-	-	-
Forward deposits placed	1,286	-	1,286	-	-	-	-	-
	74,985,468	74,210,451	638,599	127,024	9,394	-	-	-
Of which:								
Debt securities								
- included in financial assets at fair value through profit or loss	27,758,174	-	13,237,712	13,079,460	1,441,002	-	-	-
- included in available-for-sale financial assets	27,230,320	-	1,499,583	8,740,219	14,392,597	2,597,921	-	-
	54,988,494	-	14,737,295	21,819,679	15,833,599	2,597,921	-	-

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.

20 Financial risk management (continued)

(d) Operational risk management

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

20 Financial risk management (continued)

(e) Capital management (continued)

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, 2018 and 2017. Further information on the Company's capital positions can be found in part (a) of the unaudited supplementary information.

21 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 amortized cost and are reasonable approximation of their fair values as at 31 December 2018 and 2017.

22 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.

22 Material related party transactions (continued)

(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		*Immediate holding company*		*Fellow subsidiaries*	
	2017	*2016*	*2018*	*2017*	*2018*	*2017*
Interest income	-	-	793,677	571,941	5,707	2,673
Interest expense	-	-	(172,083)	(12,733)	(32)	(8)
Fee and commission income	-	-	630,713	671,199	225,175	120,784
Operating expenses	-	-	(1,058,428)	(1,013,355)	(424,115)	(351,318)
For the year ended December 31	-	-	193,879	217,052	(193,265)	(227,869)

Material related party transactions (continued)

Transactions with group companies (continued)

	Ultimate holding company		*Immediate holding company*		*Fellow subsidiaries*	
	2018	*2017*	*2018*	*2017*	*2018*	*2017*
Placement of deposits						
At January 1	-	-	42,946,172	40,630,237	331,640	346,976
At December 31	-	-	45,165,164	42,946,172	358,353	331,640
Average balance	-	-	44,055,668	41,788,205	344,997	339,308
Acceptance of deposits						
At January 1	-	-	146,756	1,171,708	279,794	278,917
At December 31	-	-	27,003,586	146,756	307,578	279,794
Average balance	-	-	13,575,171	659,232	293,686	279,356
Cash and balances with banks and other financial institutions						
At January 1	-	-	2,474,479	3,041,275	54,298	89,511
At December 31	-	-	1,555,633	2,474,479	50,655	54,298
Average balance	-	-	2,015,056	2,757,877	52,477	71,905
Other assets						
At January 1	-	-	1,004,190	1,078,742	33,659	53,556
At December 31	-	-	1,004,614	1,004,190	31,296	33,659
Average balance	-	-	1,004,402	1,041,466	32,478	43,608
Other liabilities						
At January 1	12,690	11,273	475,942	184,145	29,523	31,782
At December 31	12,196	12,690	163,187	475,942	34,669	29,523
Average balance	12,443	11,982	319,565	330,044	32,096	30,653

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

22 Material related party transactions (continued)

(b) Key management personnel emoluments

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

	2018	*2017*
Short-term employee benefits	55,171	75,919
Post-employment benefits	2,739	3,010
Share-based payments	2,990	6,653
	60,900	85,582

Amounts disclosed include emoluments totaling HK$30,079,930 (2017: HK$47,839,609) to certain key management personnel were paid by group companies of the Company. The Company did not reimburse the group companies for the service provided.

In addition to the amounts disclosed above, emoluments totalling HK$478,085 (2017: HK$3,987,606) to certain key management personnel who provided services to group companies of the Company were paid by the Company. The Company did not receive reimbursement from group companies.

(c) Loans to directors

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

	2018	*2017*
Aggregate amount of relevant loans made by the Company outstanding at December 31	17,244	10,560
Maximum aggregate amount of relevant loans made by the Company outstanding during the year	25,357	13,914

UNAUDITED SUPPLEMENTARY INFORMATION

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

(a) Capital adequacy ratio

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

	At Dec 31, 2018	*At Dec 31, 2017*
The Company's regulatory capital position was as follows:		
Common Equity Tier 1 (CET1) capital ratio	29.14%	29.23%
Tier 1 capital ratio	29.14%	29.23%
Total capital ratio	30.21%	30.31%

Countercyclical Capital Buffer Ratio

	At Dec 31, 2018	*At Dec 31, 2017*
Countercyclical Capital Buffer Ratio	1.80%	1.20%

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

Capital Conservation Buffer Ratio

Under the Banking (Capital) Rules, the capital conservation buffer ratios for calculating the Bank's buffer level are 1.875% for 2018 and 1.25% for 2017.

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

(b) Leverage ratio

	At Dec 31, 2018	*At Dec 31, 2017*
Leverage Ratio	9.51%	10.73%

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

(c) Segmental information

(i) By class of business

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

(ii) By geographical area

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

(iii) International claims

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

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

	At Dec 31, 2018				
			Non-bank private sector		
	Banks	*Offical Sector*	*Non-bank financial institutions*	*Non-financial private sector*	*Total*
Developed countries	48,360,850	47,714,760	3,888,818	835,857	100,800,285
of which United States	47,723,251	36,774,110	1,041,402	210,239	85,749,002

	At Dec 31, 2017				
			Non-bank private sector		
	Banks	*Offical Sector*	*Non-bank financial institutions*	*Non-financial private sector*	*Total*
Developed countries	46,654,762	19,236,750	4,396,371	769,964	71,057,847
of which United States	46,483,944	10,964,660	1,349,143	193,503	58,991,250

(d) Further analysis on loans and advances to customers

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

	2018		*2017*	
	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	3,268,466	100%	3,663,045	100%
Wholesale and retail trade	176,815	38%	304,725	33%
Manufacturing	30,171	36%	57,203	37%
Others	77,808	20%	134,434	20%
Individuals				
Loans for the purchase of other residential properties	46,146,603	100%	38,866,706	100%
Credit card advances	13,389,982	-	12,755,573	-
Others	19,966,071	72%	18,946,218	70%
	83,055,916		74,727,904	
Netting adjustment on account of foreign currency margin products	(677,395)		(766,949)	
Total loans and advances to customers for use in Hong Kong	82,378,521		73,960,955	
Loans and advances to customers for use outside Hong Kong	10,506	-	11,708	-
Trade finance	453,289	3%	75,553	53%
Total	82,842,316		74,048,216	

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

(d) 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:

	2018	*2017*
Overdue loans and advances to customers		
Individuals		
Loans for the purchase of other residential properties	1,062	446
Credit card advances	33,330	32,558
Others	1,802	4,128
Impaired loans and advances to customers		
Individuals		
Loans for the purchase of other residential properties	1,062	1,979
Credit card advances	33,330	32,558
Others	23,142	24,448
Collective impairment allowances		
Individuals		
Loans for the purchase of other residential properties	1,805	522
Credit card advances	261,125	172,075
Others	33,318	39,453
Specific impairment allowances		
Individuals		
Credit card advances	27,425	-
Others	2,430	-
New impairment allowances		
Individuals		
Loans for the purchase of other residential properties	236	(452)
Credit card advances	177,720	174,686
Others	41,145	44,868
Advances written off during the year		
Individuals		
Credit card advances	191,239	224,267
Others	48,785	58,743

(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.

(e) Overdue and rescheduled assets

(i) Overdue loans and advances to customers

	2018		*2017*	
	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	35,889	0.04%	36,697	0.05%
- 1 year or less but over 6 months	305	0.00%	-	0.00%
- over 1 year	-	0.00%	446	0.00%
	36,194	0.04%	37,143	0.05%
Current market value of collateral held against the covered portion of overdue loans and advances to customers	15,711		4,005	
Covered portion of overdue loans and advances to customers	1,062		446	
Uncovered portion of overdue loans and advances to customers	35,132		36,697	
	36,194		37,143	
Specific impairment allowances	24,256		-	

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

	2018		*2017*	
	Amount	*% of loans and advances to customers*	*Amount*	*% of loans and advances to customers*
Rescheduled loans and advances to customers	21,340	0.03%	21,853	0.03%

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

(iii) Impaired loans and advances to customers

	2018		*2017*	
	Amount	*% of loans and advances to customers*	*Amount*	*% of loans and advances to customers*
Overdue loans and advances to customers	36,194	0.04%	37,143	0.05%
Rescheduled loans and advances to customers	21,340	0.03%	21,853	0.03%
Impaired loans and advances to customers	57,534	0.07%	58,996	0.08%

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

There were no advances to banks or other assets which were overdue for over three months as at 31 December 2018 and 31 December 2017, nor were there any rescheduled advances to banks and other financial institutions.

(f) Repossessed assets

	2018	*2017*
Repossessed assets	-	-

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

(g) Mainland Activities

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

		2018	
	On-balance sheet exposures	*Off-balance sheet exposures*	*Total exposures*
Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	47,745	-	47,745
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	2,421,623	896,986	3,318,609
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	696	-	696
Other counterparties where the exposures are considered by the reporting institution to be non-bank China exposure	22,724	50	22,774
Total	2,492,788	897,036	3,389,824
Total assets after provision	224,604,503		
On-balance sheet exposures as percentage of total assets	1.11%		

(g) Mainland Activities (continued)

	2017		
	On-balance sheet exposures	*Off-balance sheet exposures*	*Total exposures*
Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	59,896	-	59,896
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	1,821,367	868,316	2,689,683
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	871	-	871
Other counterparties where the exposures are considered by the reporting institution to be non-bank China exposure	25,940	50	25,990
Total	1,908,074	868,366	2,776,440
Total assets after provision	181,632,713		
On-balance sheet exposures as percentage of total assets	1.05%		

(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 statement of financial position date can be analyzed as follows:

	2018	*2017*
Classes of exposures:		
Sovereign	764	958
Public sector entity	13,684	13,358
Bank	1,841,264	1,709,858
Corporate	39,957	7,067
Cash items	136	234
Regulatory retail	1,219,686	1,246,357
Residential mortgage loans	1,625,050	1,399,783
Other exposures which are not past due	375,459	331,081
Past due	6,197	9,743
Total capital requirements for on-balance sheet exposures	5,122,197	4,718,439
Trade-related contingencies	-	57
Forward forward deposits placed	20	21
Other commitments	25,063	19,367
Exchange rate contracts	3,354	5,044
Total capital requirements for off-balance sheet exposures	28,437	24,489

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 statement of financial position date is:

	2018	*2017*
Capital charge for operational risk	854,369	785,434

(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 the exposures of Sovereign, Public sector entity ("PSE"), Multilateral development bank, Bank, Securities firm, Corporate and Collective investment scheme ("CIS"). The Company follows the process prescribed in Part 4 of the Banking (Capital) Rules to map the ratings to the exposures booked in the Company's banking book.

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

		After credit risk mitigation		*Risk-weighted amounts*				
2018	*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	84,411,387	84,439,943	-	9,549	-	9,549	-	-
Public sector entity	-	855,225	-	171,045	-	171,045	-	-
Multilateral development bank	149,592	149,592		-		-	-	-
Bank	50,043,491	49,684,423	359,068	22,913,577	102,218	23,015,795	-	-
Corporate	510,396	-	499,464	-	499,464	499,464	-	10,932
Cash items	547,679	-	547,679	-	1,694	1,694	-	
Regulatory retail	27,456,585	-	20,328,106	-	15,246,080	15,246,080	7,093,784	34,695
Residential mortgage loans	49,057,894	-	48,219,740	-	20,313,119	20,313,119	-	838,154
Other exposures which are not past due	9,711,327	-	4,693,235	-	4,693,235	4,693,235	5,018,092	-
Past due	52,021	-	52,021	-	77,464	77,464	-	-
Off-balance sheet								
Forward forward deposits placed	1,240	-	1,240	-	248	248	-	-
Commitments that are unconditionally cancellable without prior notice	76,287,648	-	76,287,648	-	-	-	-	-
Other commitments	2,555,756	-	2,555,756	-	313,293	313,293	-	-
Exchange rate contracts	189,012	94,192	20,968	31,433	10,495	41,928	73,852	-

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

(iii) Credit risk exposures (continued)

		After credit risk mitigation		*Risk-weighted amounts*				
2017	*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	53,255,435	53,296,759	-	11,979	-	11,979	-	-
Public sector entity	-	834,874	-	166,975	-	166,975	-	-
Multilateral development bank	469,817	469,817	-	-	-	-	-	-
Bank	46,395,778	46,063,805	331,973	21,295,583	77,646	21,373,229	-	-
Corporate	105,990	-	88,337	-	88,337	88,337	-	17,653
Cash items	503,465	-	503,465	-	2,920	2,920	-	
Regulatory retail	27,046,977	-	20,772,612	-	15,579,459	15,579,459	6,204,894	69,471
Residential mortgage loans	42,192,618	-	41,403,544	-	17,497,284	17,497,284	-	789,074
Other exposures which are not past due	8,243,875	-	4,138,513	-	4,138,513	4,138,513	4,105,362	-
Past due	81,860	-	81,860	-	121,788	121,788	-	-
Off-balance sheet								
Trade-related contingencies	3,573	-	3,573	-	715	715	-	-
Forward forward deposits placed	1,286	-	1,286	-	257	257	-	-
Commitments that are unconditionally cancellable without prior notice	73,189,122	-	73,189,122	-	-	-	-	-
Other commitments	1,791,487	-	1,791,487	-	242,085	242,085	-	-
Exchange rate contracts	255,939	171,642	25,733	50,088	12,968	63,056	58,564	-

The amount of credit exposures that are risk-weighted at 1250% is nil (2017: nil).

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

(iv) Counterparty credit risk-related exposures

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

Embedded derivatives of hybrid (combined) deposits

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

Stand-alone derivatives transactions

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

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

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

	Banks and other financial institutions	*Others*	*Total*
2018			
Notional amounts	31,085,527	3,257,761	34,343,288
Credit equivalent amounts	130,988	58,024	189,012
Risk-weighted amounts	33,359	8,569	41,928
2017			
Notional amounts	12,761,405	3,046,730	15,808,135
Credit equivalent amounts	206,474	49,465	255,939
Risk-weighted amounts	52,400	10,656	63,056

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

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

Stand-alone derivatives transactions (continued)

An analysis of counterparty credit risk exposures is as follows:

	2018	*2017*
Gross total positive fair value	49,189	97,858
Credit equivalent amounts	189,012	255,939
Recognized collateral held:		
- Cash on deposits with the Company	73,852	58,564
Credit equivalents, net of recognized collateral held	115,160	197,375
Risk-weighted amounts	41,928	63,056

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

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

(v) Credit risk mitigation

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

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

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

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

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

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

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

(vi) Market risk

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

	2018	*2017*
Capital charge for:		
Foreign exchange exposures	47,959	17,804

(vii) Equity exposures

	2018	*2017*
Financial assets at fair value through profit and loss	596,000	-
Available-for-sale financial assets	-	212,443

The Company's membership with investee companies amounting to HK$596,000 thousand (2017: HK$212,443 thousand), which are included in the statement of financial position, are considered instrumental in daily banking and credit card operations. Unlisted equity investment were reclassified from available-for-sale financial assets to financial assets at fair value through profit and loss in 2018 statement of financial position.

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

(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:	Increase/(Decrease) in earnings over the next 12 months
2018	
HKD	126,000
USD	(551,000)
2017	
HKD	44,000
USD	(653,000)

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

(ix) Currency risk

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

2018	USD	RMB
Spot assets	85,078,755	1,393,024
Spot liabilities	(79,518,382)	(1,939,543)
Forward purchases	996,804	1,145,735
Forward sales	(6,471,580)	(18,922)
Net long non- structural position	85,597	580,294

2017	USD	RMB
Spot assets	57,128,938	924,675
Spot liabilities	(49,489,993)	(1,548,398)
Forward purchases	1,115,538	839,874
Forward sales	(8,679,996)	(8,511)
Net long non- structural position	74,487	207,640

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. In additon, the Board has established a member of specialised committees to assist in the Board's oversight of certain of certain major functional areas. The Company has fully complied throughout the year with the guideline in the Supervisory Policy Manual CG-1 “Corporate Governance of Locally Incorporated Authorized Institutions” issued by the HKMA.

Board committees

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

(i) Audit Committee

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

(i) Corporate governance (continued)

(ii) Risk Management Committee

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

The Committee was reconstituted in February 2018 to comprises all Independent Non-Executive Directors.

<u>Asset and Liability Committee</u>
The Asset and Liability Committee provides oversight on the Company's market and liquidity risks, transfer pricing and balance sheet optimization across businesses, evaluation of capital adequacy and oversight of local regulatory constraints of the Company.

<u>Credit Committee</u>
The Committee is a regular forum for establishing sound business strategies, articulate and monitor adherence to risk appetite and risk limits, and identify, measure, manage and control risk. The Committee also ensures the lending activities are conducted in accordance to the requirement of Citi policies and regulatory requirement.

<u>Information Technology Management Forum</u>
The Information Technology Management Forum is established to assume the overall information technology governance responsibilities covering all technology related matters including the establishment of a strategic information technology plan and provide guidance to the execution of the strategic plan.

(iii) Nomination and Remuneration Committee

The Nomination and Remuneration Committee, reconstituted from the Nomination Committee since February 2018, is established to identify individuals suitably qualified to become Board members, make recommendations on appointment or re-appointment and succession planning for directors and senior management, review the Board's structure, size and composition, review the efficiency and effectiveness of the functioning of the Board, oversee senior management's implementation of the remuneration system to ensure compliance with applicable regulatory requirements and to assess whether the Company's overall remuneration policy is in line with its risk appetite, risk culture and long-term interests. The Committee comprises all Independent Non-executive Directors of the Company.