Citibank (Hong Kong) Limited

Pillar 3 Regulatory Disclosures

For the Year ended
December 31, 2017

Table of contents

Capital adequacy ratios & Leverage ratio

Table OVA: Overview of risk management

Template OV1: Overview of Risk-Weighted Assets

Template LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

Template LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

Template LIA: Explanations of differences between accounting and regulatory exposure amounts

Table CRA: General information about credit risk

Template CR1: Credit quality of exposures

Template CR2: Changes in defaulted loans and debt securities

Table CRB: Additional disclosure related to credit quality of exposures

Table CRC: Qualitative disclosures related to credit risk mitigation

Template CR3: Overview of recognized credit risk mitigation

Table CRD: Qualitative disclosures on use of ECAI ratings under STC approach

Template CR4: Credit risk exposures and effects of recognized credit risk mitigation – for STC approach

Template CR5: Credit risk exposures by asset classes and by risk weights – for STC approach

Table CCRA: Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs)

Template CCR1: Analysis of counterparty default risk exposures (other than those to CCPs) by approaches

Template CCR2: CVA capital charge

Template CCR3: Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach

Template CCR5: Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)

Table SECA: Qualitative disclosures related to securitization exposures

Template SEC1: Securitization exposures in banking book

Template SEC4: Securitization exposures in banking book and associated capital requirements – where AI acts as investor

Table MRA: Qualitative disclosures related to market risk

Template MR1: Market risk under Standardized (market risk) approach (STM approach)

This document contains Pillar 3 disclosure of the Citibank (Hong Kong) Limited (the "Company") relating to capital adequacy ratios, leverage ratio, risk-weighted assets ("RWA") by risk types and other financial information. The following disclosures are prepared in accordance with the Banking (Disclosure) Rules and disclosure templates issued by the Hong Kong Monetary Authority ("HKMA").

1 Capital adequacy ratios

The capital adequacy ratios were calculated in accordance with the Banking (Capital) Rules issued by the HKMA.

In thousands of Hong Kong dollar	At December 31, 2017	At September 30, 2017
Capital		
Common Equity Tier 1 (CET1)	20,280,533	20,230,416
Tier 1	20,280,533	20,230,416
Total	21,027,701	20,946,777
Total RWA	69,378,136	66,883,706
Capital Adequacy Ratios		
Common Equity Tier 1 (CET1) capital ratio	29.23%	30.25%
Tier 1 capital ratio	29.23%	30.25%
Total capital ratio	30.31%	31.32%

2 Leverage ratio

In thousands of Hong Kong dollar	At December 31, 2017	At September 30, 2017
Capital and Total exposures		
Tier 1 capital	20,280,533	20,230,416
Total exposures	188,925,966	186,258,167
Leverage Ratio	10.73%	10.86%

The leverage ratio was complied in accordance with the Leverage Ratio Framework issued by the HKMA.

Table OVA: Overview of risk management

Effective risk management is of primary importance to its overall operations. Accordingly, the Company's risk management process has been designed to monitor, evaluate and manage the principal risks it assumes in conducting its activities. Specifically, the activities that the Company engages in, and the risks those activities generate, must be consistent with the Company's mission and value proposition, the key principles that guide it, and risk appetite.

The Risk Governance Framework consists of the policies, procedures, and processes through which the Company identifies, measures, manages, monitors, reports, and controls risks across the firm. Independent Risk Management, in conjunction with other independent control functions, reviews and updates this Risk Governance Framework at least annually and as needed to address any modifications that may be required as a result of any material changes to the firm or its operating environment. The Risk Management Committees (RMC) of the Company and the Board review and consider for approval the Risk Governance Framework at least annually.

RMC is delegated by the Board to establish the risk appetite statement, review on a regular basis and seek approval from the Board. The committee ensures that an adequate risk management framework, including policies and limits, is in place to identify, measure, mitigate and control all material risks that the Company takes during its business activities.

The Company utilizes a Risk Taxonomy that supports firm-wide frameworks including the Risk Governance Framework. The Risk Taxonomy and the Risk Governance Framework include the following risk types: Credit risk, Liquidity Risk, Market / price risk (including interest rate risk), Operational Risk, Compliance risk, Conduct risk, Legal risk and Strategic risk.

Management of risk is a fundamental responsibility of all employees. In order to create clarity around responsibilities, the Company manages its risks through each of its three lines of defense: (i) business management, (ii) independent control functions and (iii) Internal Audit. The three lines of defense collaborate with each other in structured forums and processes to bring various perspectives together and to steer the organization toward outcomes that are in clients' interests, create economic value and are systemically responsible.

First Line of Defense: Business Management

Each of businesses of the Company owns its risks and is responsible for assessing and managing its risks. Each business is also responsible for having controls in place to mitigate key risks, assessing internal controls and promoting a culture of compliance and control. In doing so, a business is required to maintain appropriate staffing and implement appropriate procedures to fulfill its risk governance responsibilities.

Businesses organize and chair many committees and councils that cover risk considerations with participation from independent control functions, including committees or councils that are designed to consider matters related to capital, assets and liabilities, business practices, business risks and controls, mergers and acquisitions, fair lending and incentives.

Second Line of Defense: Independent Control Functions

Independent control functions of the Company set standards by which the businesses manage and oversee risks, including compliance with applicable laws, regulatory requirements, policies and other relevant standards of conduct. Among other responsibilities, the independent control functions provide advice and training to the businesses and establish tools, methodologies, processes, and oversight for controls used by the businesses to foster a culture of compliance and control. The second line of defense provides credible challenge to the first-line units in their assessment and management of risk. Independent control functions of the Company include Independent Risk Management, Independent Compliance Risk Management (ICRM), Anti-Money Laundering (AML), Finance, Legal and Human Resources.

Table OVA: Overview of risk management (continued)

Third Line of Defense: Internal Audit

The role of Internal Audit is to provide independent and timely assurance to the Board, the Audit Committee, senior management, and regulators regarding the effectiveness of governance, risk management, and controls that mitigate current and evolving risks and enhance the control culture within the Company.

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.

Stress Testing

Stress-testing involves the use of various techniques to assess a financial institution's potential vulnerability (typically in terms of its profitability, liquidity and capital adequacy) to "stressed" business conditions and thereby plays an important role in the management of risk by banks. It is also a tool commonly employed by supervisors for assessing the risks and vulnerabilities within banking systems.

The Board shall have ultimate responsibility for the Company's stress testing program, while the senior management should be accountable for the implementation, management and oversight of the program.

The stress parameters and assumptions should be reviewed regularly by respective material risk managers. The stress test should be performed at least annually. The Board and Senior Management should request ad-hoc stress testing if there are significant changes in the economic, social and political environment, or any material changes in business model/strategies.

Stress scenarios should be discussed and reviewed by Senior Management with their collective knowledge, expertise and judgment in designing/endorsing the scenario parameters/assumptions. The Board is ultimately responsible for the review and approval of stress test scenarios. Stress scenarios should be designed to evaluate the Company's position under severe but plausible conditions along a spectrum of events and severity levels. The design of stress scenarios should take into account of the Company's operations and business models and key vulnerabilities to address all relevant material risks.

In general, bank-wide stress testing should be designed primarily for capturing adverse macro-economic scenario. In addition, impact assessment can also be conducted on other types of scenarios (e.g. specific operational loss incidents or negative reputational issues). Linkages among different risks should be considered.

Template OV1: Overview of Risk-Weighted Assets

The following table sets out the RWA by risk types and the corresponding minimum capital requirements (i.e. 8% of RWA), as required by the HKMA.

		(a)	(b)	(c)
		RWA		**Minimum capital requirements**
	In thousands of Hong Kong dollar	**As at December 31, 2017**	**As at September 30, 2017**	**As at December 31, 2017**
1	Credit risk for non-securitization exposures	59,223,541	56,713,051	4,737,883
2	Of which STC approach	59,223,541	56,713,051	4,737,883
4	Counterparty credit risk	107,081	156,153	8,566
5	Of which SA-CCR [Note]	63,056	106,515	5,044
12	Securitization exposures in banking book	486,840	489,347	38,947
15	Of which STC(S) approach	486,840	489,347	38,947
16	Market risk	222,550	138,050	17,804
17	Of which STM approach	222,550	138,050	17,804
19	Operational risk	9,817,925	9,825,875	785,434
21	Of which STO approach	9,817,925	9,825,875	785,434
24a	Deduction to RWA	479,801	438,770	38,384
24b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	479,801	438,770	38,384
25	**Total**	**69,378,136**	**66,883,706**	**5,550,250**

Note: Prior to the implementation of SA-CCR, Current exposure method is used for calculating default risk exposures of derivative contracts.

The Company has adopted the "standardized approach" for the calculation of the risk-weighted assets for credit risk, market risk, and operational risk.

The Company does not have any credit-related derivatives and exposures to CCPs as at December 31, 2017.

Template LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

The following table shows the differences between the carrying values as reported in the Company's financial statements following the scope of accounting consolidation and the carrying values under the scope of regulatory consolidation, with a breakdown into regulatory risk categories of every item of the assets and liabilities reported in financial statements based on the scope of accounting consolidation.

At 31 December, 2017:

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
			Carrying values of items:				
In thousands of Hong Kong dollar	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with banks and other financial institutions	8,444,652	4,497,772	4,497,772	-	-	-	-
Placements with banks and other financial institutions	5,411,932	43,277,812	43,277,812	-	-	-	-
Loans and advances							
Gross loans and advances to customers	74,048,216	74,815,165	74,815,165	-	-	-	-
Gross loans and advances to banks	33,919,000		-	-	-	-	-
Impairment allowances	(227,996)	(227,996)	-	-	-	-	(227,996)
Trade Bills	329	329	329	-	-	-	-
Financial assets at fair value through profit or loss	27,856,032	27,758,174	27,758,174	-	-	-	-
Available-for-sale financial assets	27,442,763	27,442,763	25,009,449	-	2,433,314	-	-
Fixed assets	407,025	407,025	407,025	-	-	-	-
Intangible assets	85,813	85,813	-	-	-	-	85,813
Deferred tax assets	53,554	53,554	-	-	-	-	53,554
Other assets	3,425,530	3,522,302	2,530,089	97,858	888	-	893,467
Total assets	**180,866,850**	**181,632,713**	**178,295,815**	**97,858**	**2,434,202**	**-**	**804,838**
Liabilities							
Deposits and balances from banks and other financial institutions	146,755	146,755	-	-	-	-	**146,755**
Deposits from customers	154,201,564	154,968,513	-	-	-	-	**154,968,513**
Trading financial liabilities	23,892	23,892	-	-	-	-	**23,892**
Current taxation	56,126	56,126	-	-	-	-	**56,126**
Other liabilities	5,017,124	5,016,038	-	-	-	-	**5,016,038**
Total liabilities	**159,445,461**	**160,211,324**	**-**	**-**	**-**	**-**	**160,211,324**

Template LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

The following table provides information on the main sources of differences between the carrying values in financial statements and the exposure amounts used for the calculation of regulatory capital in respect of the assets and liabilities based on the scope of regulatory consolidation.

At 31 December, 2017:

		(a)	(b)	(c)	(d)	(e)
		Total	Items subject to:			
	In thousands of Hong Kong dollar		credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	**180,827,875**	**178,295,815**	**2,434,202**	**97,858**	**-**
2	- Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	180,827,875	178,295,815	2,434,202	97,858	-
4	Off-balance sheet amounts	74,985,468	631,262	-	-	-
5	Potential exposures for counterparty credit risk	158,081	-	-	158,081	-
6	Recognized collateral for Credit risk mitigation	(10,310,256)	(10,310,256)			
7	Net open position for foreign exchange exposures	222,556	-	-	-	222,556
8	**Exposure amounts considered for regulatory purposes**	**171,529,518**	**168,616,821**	**2,434,202**	**255,939**	**222,556**

Template LIA: Explanations of differences between accounting and regulatory exposure amounts

The following provides explanations on the differences observed between accounting carrying values (as defined in template LI1) and amounts considered for regulatory capital purposes (as defined in template LI2).

Major differences between the amounts in columns (a) and (b) in template LI1

i) The carrying values as reported in published financial statements are after Netting adjustment on account of foreign currency margin products.

ii) The carrying values of "Placement with banks and other financial institutions" as reported in published financial statements which have residual contractual maturities within one month are classified as "Cash and balances with banks, central banks and other financial institutions", while balances with residual contractual maturities greater than one year are classified as "Loans and advances".

The main drivers for the differences between accounting values and amounts considered for regulatory purposes shown in template LI2

i) Exposure amounts considered for regulatory purposes consist of Off-balance sheet exposures including contingent liabilities and commitments after application of Credit Conversion Factor ("CCF").

ii) Counterparty credit risk exposures for regulatory purposes consist of both the current exposures and the potential exposures which are derived by applying the CCF to the notional principal of the transactions or contracts.

iii) Exposures amount is calculated after deducting credit risk mitigration under standardized approach.

iv) For Market risk framework, the exposure amounts considered Net open position for foreign exchange exposures.

Valuation of financial instruments

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, the most suitable measure for fair value is the quoted market price. In the absence of organized secondary markets for most financial instruments, and in particular for loans, deposits and unlisted derivatives, direct market prices are not available. The fair value of such instruments was therefore calculated on the basis of well-established valuation techniques using current market parameters. In particular, the fair value is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of the value realizable in a future sale.

All valuation models are validated before they are used as a basis for financial reporting, by qualified personnel independent of the area that created the model. These techniques involve uncertainties and are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experiences and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instruments.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented below:

(i) the fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the statement of financial position date;

(ii) the fair value of variable rate financial instruments is assumed to approximate their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognized separately by deducting the amount of the impairment allowances from both the carrying amount and fair value;

(iii) the fair value of fixed rate loans and mortgages carried at amortized cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans; and

(iv) the fair value of forward exchange contracts and interest rate swaps is estimated by discounting future cash flows. Future cash flows are estimated based on model estimates of the amount it would receive or pay to terminate the contract at the statement of financial position date taking into account current market conditions and the current creditworthiness of the counterparties. The discount rate used is a market rate for a similar instrument at the statement of financial position date. The fair value of an option contract is determined by applying the binomial valuation model. Inputs are based on market related data at the statement of financial position date.

Fair value hierarchy

The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unverified inputs and validated models. Unverified inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unverified inputs or invalidated models.

Table CRA: General information about credit risk

Credit risk is the 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.

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.

Consumer credit risk

The Global Consumer Credit and Fraud Risk Policies (GCCFRP), along with the firm-wide Risk Rating Policy, is the foundation of Global Consumer Risk Management. The GCCFRP provide the rules by which credit and fraud risks are managed and authorities, exceptions and limits are defined. The ability for Independent Risk Management to successfully manage risk is complemented by a robust control framework, which includes: ongoing business monitoring; risk-based independent verification; detective mechanisms including frequent portfolio and business reviews; and a robust Risk Appetite Framework.

Active monitoring of conformance with established risk limits and tolerances occurs through a variety of Key Risk Indicators (KRIs), benchmarks, and financial measures. These include a risk tolerance limit, which requires every portfolio to obtain initial approval and annual re-approval of risk tolerances. In addition, origination benchmarks are an essential control mechanism to ensure the Company's originations are performing on a consistent basis within the risk appetite of any individual business. There are numerous monitoring systems and triggering mechanisms in place to determine if additional scrutiny or action is needed. Risk tolerance limits and the Risk Appetite Ratio are critical Key Risk Indicators which call for additional scrutiny by senior management and specific action when triggers are breached.

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.

Template CR1: Credit quality of exposures

The following table provides an overview of credit quality of on- and off-balance exposures as at December 31, 2017.

		(a)	(b)	(c)	(d)
		Gross carrying amounts of		Allowances / impairments	Net values
	In thousands of Hong Kong dollar	Defaulted exposures	Non-defaulted exposures		
1	Loans	81,860	109,029,067	227,996	108,882,931
2	Debt securities	-	52,555,780	-	52,555,780
3	Off-balance sheet exposures	-	1,796,346	-	1,796,346
4	**Total**	**81,860**	**163,381,193**	**227,996**	**163,235,057**

Loans included Placement with banks and other financial institutions with residual maturities greater than one year, Loans and advances to customers and related accrued interest receivables.

Commitment included Trade-related contingencies, Forward forward deposits placed, and Other commitments with an original maturity of not more than one year and with an original maturity of more than one year.

Template CR2: Changes in defaulted loans and debt securities

The following table provides information on the changes in defaulted loans and debt securities, including any changes in the amount of defaulted exposures, movements between non-defaulted and defaulted exposures, and reductions in the defaulted exposures due to write-offs as at December 31, 2017 and June 30, 2017 respectively.

		(a)
	In thousands of Hong Kong dollar	Amount
1	**Defaulted loans and debt securities at end of the previous reporting period**	**84,455**
2	Loans and debt securities that have defaulted since the last reporting period	167,453
3	Returned to non-defaulted status	(753)
4	Amounts written off	(158,976)
5	Other changes	(10,319)
6	**Defaulted loans and debt securities at end of the current reporting period**	**81,860**

Table CRB: Additional disclosure related to credit quality of exposures

The following provide additional qualitative and quantitative information on the credit quality of exposures to supplement the quantitative information provided under templates CR1 and CR2 as at December 31, 2017.

(i) Credit quality of Loans and advances to customers

The Company classifies the loans and advances in accordance with the loan classification system required to be adopted for reporting to the HKMA.

The ageing analysis of loans and advances to customers that are past due but not impaired as follows:

	As at December 31, 2017
Gross loans and advances to customers that are past due but not impaired	
- Overdue 3 months or less	1,003,441

(ii) Impairment of assets – Loan and Receivables to customers

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 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, 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.

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 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.

Table CRB: Additional disclosure related to credit quality of exposures (Continued)

(iii) Credit risk exposure by geographical areas, industry and residual maturity

Geographical area **In thousands of Hong Kong dollar**	**As at December 31, 2017**
Hong Kong	105,224,358
United States	46,621,887
Other	11,616,808
Total	**163,463,053**

Industry **In thousands of Hong Kong dollar**	**As at December 31, 2017**
Banks	34,144,803
Official sector	52,555,780
Non-bank private sector	
- Individual	72,511,420
- Other	4,251,050
Total	**163,463,053**

Residual maturity **In thousands of Hong Kong dollar**	**As at December 31, 2017**
Repayable on demand and Up to 1 year	78,162,600
Over 1 year to 5 years	52,694,568
Over 5 years	32,487,032
Undated or overdue	118,853
Total	**163,463,053**

(iv) Overdue loans and advances to customers

In thousands of Hong Kong dollar	***As at December 31, 2017***
Loans and advances to customers which have been overdue for periods of:	
- 6 months or less but over 3 months	36,697
- 1 year or less but over 6 months	-
- over 1 year	446
	37,143
Current market value of collateral held against the covered portion of overdue loans and advances to customers	4,005
Covered portion of overdue loans and advances to customers	446
Uncovered portion of overdue loans and advances to customers	36,697
	37,143

Table CRB: Additional disclosure related to credit quality of exposures (Continued)

(iv) Overdue loans and advances to customers (Continued)

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.

(v) Rescheduled loans and advances to customers

In thousands of Hong Kong dollar	***As at December 31, 2017***
Rescheduled loans and advances to customers	21,853

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 (iv) above.

(vi) Impaired loans and advances to customers

In thousands of Hong Kong dollar	***As at December 31, 2017***
Overdue loans and advances to customers	37,143
Rescheduled loans and advances to customers	21,853
Impaired loans and advances to customers	58,996

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 also no exposures to a non-individual exceeding 10% of the aggregate impaired loans and advances to customers as at the above respective reporting dates.

Table CRC: Qualitative disclosures related to 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.

Template CR3: Overview of recognized credit risk mitigation

The following table presents the extent of credit risk exposures covered by different types of recognized CRM as at December 31, 2017.

	In thousands of Hong Kong dollar	(a) Exposures unsecured: carrying amount	(b1) Exposures to be secured	(b) Exposures secured by recognized collateral	(d) Exposures secured by recognized guarantees	(f) Exposures secured by recognized credit derivative contracts
1	Loans	97,699,165	11,183,766	10,307,568	876,198	-
2	Debt securities	52,555,780	-	-	-	-
3	**Total**	**150,254,945**	**11,183,766**	**10,307,568**	**876,198**	-
4	Of which defaulted	46,650	2,005	2,005	-	-

Table CRD: Qualitative disclosures on use of ECAI ratings under STC approach

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.

Template CR4: Credit risk exposures and effects of recognized credit risk mitigation – for STC approach

The following table illustrates the effect of any recognized CRM (including recognized collateral under both comprehensive and simple approaches) on the calculation of capital requirements under STC approach as at December 31, 2017.

		(a)	(b)	(c)	(d)	(e)	(f)
	In thousands of Hong Kong dollar	**Exposures pre-CCF and pre-CRM**		**Exposures post-CCF and post-CRM**		**RWA and RWA density**	
	Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereign exposures	53,255,435	22,250	53,296,759	-	11,979	0%
2	PSE exposures	-	-	834,874	-	166,975	20%
2a	Of which: domestic PSEs	-	-	834,874	-	166,975	20%
2b	Of which: foreign PSEs	-	-	-	-	-	0%
3	Multilateral development bank exposures	469,817	-	469,817	-	-	0%
4	Bank exposures	46,395,778	1,286	46,395,778	1,286	21,373,486	46%
5	Securities firm exposures	-	-	-	-	-	0%
6	Corporate exposures	105,990	20,816	88,337	300	88,637	100%
7	CIS exposures	-	-	-	-	-	0%
8	Cash items	503,465	-	503,465	-	2,920	1%
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	0%
10	Regulatory retail exposures	27,046,977	72,357,187	20,772,612	415	15,579,874	75%
11	Residential mortgage loans	42,192,618	1,823,290	41,403,544	629,261	17,739,369	42%
12	Other exposures which are not past due exposures	8,243,875	760,639	4,138,513	-	4,138,513	100%
13	Past due exposures	81,860	-	81,860	-	121,788	149%
14	Significant exposures to commercial entities	-	-	-	-	-	0%
15	**Total**	**178,295,815**	**74,985,468**	**167,985,559**	**631,262**	**59,223,541**	**35%**

Template CR5: Credit risk exposures by asset classes and by risk weights – for STC approach

The following table presents a breakdown of credit risk exposures under STC approach by asset classes and by risk weights as at December 31, 2017.

	In thousands of Hong Kong dollar	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
	Risk Weight / Exposure Class	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	53,236,863	-	59,896	-	-	-	-	-	-	-	53,296,759
2	PSE exposures	-	-	834,874	-	-	-	-	-	-	-	834,874
2a	Of which: domestic PSEs	-	-	834,874	-	-	-	-	-	-	-	834,874
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	469,817	-	-	-	-	-	-	-	-	-	469,817
4	Bank exposures	-	-	6,083,487	-	40,313,577	-	-	-	-	-	46,397,064
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	88,637	-	-	-	88,637
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	490,584	-	12,451	-	-	-	430	-	-	-	503,465
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-
10	Regulatory retail exposures	-	-	-	-	-	20,772,612	415	-	-	-	20,773,027
11	Residential mortgage loans	-	-	-	37,133,962	-	625,446	4,273,397	-	-	-	42,032,805
12	Other exposures which are not past due exposures	-	-	-	-	-	-	4,138,513	-	-	-	4,138,513
13	Past due exposures	-	-	-	-	-	-	2,005	79,855	-	-	81,860
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	**Total**	**54,197,264**	**-**	**6,990,708**	**37,133,962**	**40,313,577**	**21,398,058**	**8,503,397**	**79,855**	**-**	**-**	**168,616,821**

Table CCRA: Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs)

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.

Citibank's credit ratings as at the end of December, 2017 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.

Template CCR1: Analysis of counterparty default risk exposures (other than those to CCPs) by approaches

The following table presents a comprehensive breakdown of default risk exposures (other than those to CCPs), RWAs, and, where applicable, main parameters under the approaches used to calculate default risk exposures in respect of derivative contracts and SFTs as at December 31, 2017.

	In thousands of Hong Kong dollar	(a) Replacement cost (RC)	(b) PFE	(c) Effective EPE	(d) Alpha (α) used for computing default risk exposure	(e) Default risk exposure after CRM	(f) RWA
1	SA-CCR (for derivative contracts) [Note]	97,858	158,081		N/A	197,375	63,056
1a	CEM	-	-		-	-	-
2	IMM (CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	**Total**						**63,056**

Note: Prior to the implementation of SA-CCR, Current exposure method is used for calculating default risk exposures of derivative contracts.

Template CCR2: CVA capital charge

The following table provide information on portfolio subject to the CVA capital charge and the CVA calculations based on standardized CVA method and advanced CVA method as at December 31, 2017.

	In thousands of Hong Kong dollar	(a) EAD post CRM	(b) RWA
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	-	-
1	(i) VaR (after application of multiplication factor if applicable)		-
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		-
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	255,940	44,025
4	**Total**	**255,940**	**44,025**

Template CCR3: Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach

The following table presents a breakdown of default risk exposures, other than those to CCPs, in respect of derivative contracts and SFTs that are subject to the STC approach, by asset classes and risk-weights (the latter representing the riskiness attributed to the exposure according to the respective approaches), irrespective of the approach used to determine the amount of default risk exposures as at December 31, 2017.

	In thousands of Hong Kong dollar	(a)	(b)	(c)	(ca)	(d)	(e)	(f)	(g)	(ga)	(h)	(i)
	Exposure Class \ Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	130,671	-	52,531	-	-	-	-	-	183,202
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	-	-	-	-	-
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	14,069	-	-	-	-	14,069
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	104	-	-	-	104
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	**Total**	**-**	**-**	**130,671**	**-**	**52,531**	**14,069**	**104**	**-**	**-**	**-**	**197,375**

Template CCR5: Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)

The following table presents a breakdown of all types of collateral posted or recognized collateral received to support or reduce the exposures to counterparty default risk exposures as at December 31, 2017 in respect of derivative contracts or SFTs entered into, including contracts or transactions cleared through a CCP:

	(a)	(b)	(c)	(d)	(e)	(f)
	Derivative contracts				SFTs	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
In thousands of Hong Kong dollar	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	228,899	-	-	-	-
Cash - other currencies	-	2,097,147	-	17,220	-	-
Debt securities	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	**-**	**2,326,046**	**-**	**17,220**	**-**	**-**

Table SECA: Qualitative disclosures related to securitization exposures

At the end of the reporting period, the Company only acted as an investor in the securitization exposures. There were no securitization exposures in trading book and re-securitization exposures in both banking book and trading book as at December 31, 2017.

The securitization exposures held by the Company are rated with investment grades and backed by non-granular pools.

The Company held relatively small amounts of securitization exposures. They are classified and measured for accounting purpose in accordance with the Company's accounting policies on financial instruments.

Ratings from Fitch Ratings is adopted in assessing securitization exposures. The securitization exposures held by the Company is rated by recognized ECAI designated by the Capital Rules and is adopted the "standardized approach" for the calculation of the risk-weighted assets.

Template SEC1: Securitization exposures in banking book

The following table presents a breakdown of securitization exposures in the banking book (regardless of whether the exposures arising from securitization transactions satisfy all the requirements under Schedule 9 or 10 of the BCR) as at December 31, 2017.

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
		Acting as originator (excluding sponsor)			Acting as sponsor			Acting as investor		
	In thousands of Hong Kong dollar	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
1	**Retail (total) – of which:**	-	-	-	-	-	-	**2,434,202**	-	**2,434,202**
2	residential mortgage	-	-	-	-	-	-	-	-	-
3	credit card	-	-	-	-	-	-	2,434,202	-	2,434,202
4	other retail exposures	-	-	-	-	-	-	-	-	-
5	re-securitization exposures	-	-	-	-	-	-	-	-	-
6	**Wholesale (total) – of which:**	-	-	-	-	-	-	-	-	-
7	loans to corporates	-	-	-	-	-	-	-	-	-
8	commercial mortgage	-	-	-	-	-	-	-	-	-
9	lease and receivables	-	-	-	-	-	-	-	-	-
10	other wholesale	-	-	-	-	-	-	-	-	-
11	re-securitization exposures	-	-	-	-	-	-	-	-	-

Template SEC4: Securitization exposures in banking book and associated capital requirements – where AI acts as investor

The following table presents securitization exposures in the banking book where an AI acts as an investing institution of securitization transactions and the associated capital requirements as at December 31, 2017.

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
		Exposure values (by RW bands)					Exposure values (by regulatory approach)				RWAs (by regulatory approach)				Capital charges after cap			
	In thousands of Hong Kong dollar	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW	IRB(S) RBM	IRB(S) SFM	STC(S)	1250%	IRB(S) RBM	IRB(S) SFM	STC(S)	1250%	IRB(S) RBM	IRB(S) SFM	STC(S)	1250%
1	**Total exposures**	**2,434,202**	**-**	**-**	**-**	**-**	**-**	**-**	**2,434,202**	**-**	**-**	**-**	**486,840**	**-**	**-**	**-**	**38,947**	**-**
2	Traditional securitization	2,434,202	-	-	-	-	-	-	2,434,202	-	-	-	486,840	-	-	-	38,947	-
3	Of which securitization	2,434,202	-	-	-	-	-	-	2,434,202	-	-	-	486,840	-	-	-	38,947	-
4	Of which retail	2,434,202	-	-	-	-	-	-	2,434,202	-	-	-	486,840	-	-	-	38,947	-
5	Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Of which re-securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Synthetic securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Of which securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Of which retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Of which re-securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Table MRA: Qualitative disclosures related to market risk

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.

Template MR1: Market risk under Standardized (market risk) approach (STM approach)

The following table provide components of market risk capital requirement calculated using Standardized (market risk) approach (STM approach) as at December 31, 2017.

		(a)
	In thousands of Hong Kong dollar	RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	-
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	222,550
4	Commodity exposures	-
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	-
7	Other approach	-
8	Securitization exposures	-
9	**Total**	**222,550**