

## CITIBANK (HONG KONG) LIMITED

**SUBMISSIONS TO THE LEGISLATIVE COUNCIL SUBCOMMITTEE TO STUDY  
ISSUES ARISING FROM LEHMAN BROTHERS-RELATED MINIBONDS AND  
STRUCTURED FINANCIAL PRODUCTS**

**Follow-up to the hearing on 25 May 2010**

**Information (including relevant documents and records, if any) on the following issues**

1. As stated by Mr Weber LO at the hearing on 25 May 2010 and according to paragraph 10.2 of W34(C), in June 2008, the value of Lehman Brothers (LB)-related market-linked notes (MLNs) and LB-related equity-linked notes (ELNs) sold by Citibank (Hong Kong) Limited (CHKL) amounted to 18.8% of the value of all structured financial products distributed by CHKL. Please advise on the respective percentages of structured financial products issued by other issuers that were distributed by CHKL in June 2008.

- 1.1 According to the information available in June 2008, the 2008 year-to-date sales volume percentages of structured financial products by different issuers were as follows:

ISSUER	%
UBS <sup>1</sup>	34.60
Lehman Brothers Treasury Co BV	18.80
HSBC Bank PLC	16.40
Merrill Lynch	12.40
Citi	7.90
Societe Generale	5.30
Deutsche Bank AG, London	4.40
Morgan Stanley	0.30
TOTAL	100

<sup>1</sup> CHKL was engaging in discussions with the Regional Product Team of GCG in respect of issuers with a "AA" rating at the relevant time. The Regional Product Team indicated that there might be different treatment for issuers with a "AA" rating. As UBS had a "AA" rating in June 2008, the sale of structured financial products issued by UBS continued despite exceeding 20%.

2. As stated in paragraph 4.3 of W34(C), both GSPC and APC are responsible for risk-rating the new products and may set conditions relating to, for example, the sales process. Since LB-related ELNs were assigned the highest risk rating, please explain the specific conditions, if any, set by GSPC and/or APC on the sales process in respect of such products.
  - 2.1 The specific condition set by GSPC and/or APC on the sales process in respect of ELNs was customers were required to declare and acknowledge on their ELN subscription forms that *"I/We confirm that my/our purchase of the Notes does not result in an exposure of more than 20% of my/our total net worth to non-principal protected equity-linked note investments."* “本人/吾等確認購買本票據將不會導致本人/吾等有超過20%的淨資產投資於非保本股票掛鈎票據中。”
3. As stated in page 4 of Citigroup Asia New Products and Services Policy and Standards (March 2006) (Item 5 to W34(C)), the New Product & Service Template should address a number of areas including Product Description and Product Due Diligence etc. Please provide a sample copy of the template for LB-related ELNs distributed by CHKL.
  - 3.1 Please refer to the Product Program (Items 6A, 6B, 6C of the Supporting Documents for the Written Submission of Mr Weber Lo).
4. As stated in paragraph 20.1 of W34(C), CHKL reviewed the credit rating of LB on an annual basis and LB was approved as a Citigroup counterparty by Citigroup Asia Credit Department, which reviewed such approval annually. Please advise:
  - (a) the date when CHKL conducted the annual review in 2007 on the credit rating of LB; and
  - (b) the date when Citigroup Asia Credit Department conducted the annual review in 2007 and approved LB as a Citigroup counterparty.
- 4.1 CHKL, in collaboration with the Regional Product Team of GCG and Citigroup Asia Credit Department, conducted the annual review of credit rating of LB and the annual review of approved counterparties in January 2007 for the year of 2007 and December 2007 for the year of 2008.