Citibank N.A. -

United Arab Emirates Branches

Report and Financial statements

For the year ended 31 December 2018

These audited financial statements are subject to approval of the Central Bank of U.A.E.

Citibank N.A. - United Arab Emirates Branches
Financial statements
31 December 2018

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INDEPENDENT AUDITOR'S REPORT

To the Head Office of
Citibank N.A. United Arab Emirates Branches
United Arab Emirates

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Citibank N.A. - United Arab Emirates Branches** (the "Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018 and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements section* of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (the "IESBA Code")* together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Bank for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on the financial statements on 29 March 2018.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and in compliance with the applicable provisions of the UAE Federal Law No (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Banks' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank' financial reporting process.

Cont'd

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banks' internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Banks ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. (2) of 2015, we report that:

- we have obtained all the information we considered necessary for the purposes of our audit;
- the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Bank has maintained proper books of account;
- the financial information included in the management's report is consistent with the books of account of the Bank;
- investments during the year ended 31 December 2018, are disclosed in note 9 to the financial statements;
- note 23 reflects material related party transactions and the terms under which they were conducted;
- based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 of Articles of Association which would have a material impact on its activities or its financial position as at 31 December 2018; and
- note 18 reflects the social contributions made during the year ended 31 December 2018.

Further, as required by the Article 114 of the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

Deloitte & Touche (M.E.)

Musa Ramahi
Registration No: 872
31 March 2019
Dubai
United Arab Emirates

Citibank N.A. - United Arab Emirates Branches

Statement of financial position

As at 31 December 2018

	Note	2018 AED'000	2017 AED'000
ASSETS			
Cash and balances with the Central Bank of UAE	*6*	**9,138,914**	11,936,302
Due from banks	*7*	**4,011,278**	2,833,677
Due from head office and branches abroad	*23*	**66,048**	37,459
Derivative assets	*22*	**175,396**	257,209
Loans and advances to customers	*8*	**9,186,042**	9,265,299
Investment securities	*9*	**5,136,281**	1,822,735
Property and equipment	*10*	**140,913**	72,891
Customer acceptances	*20*	**136,117**	323,910
Other assets	*11*	**584,132**	604,263
Total assets		**28,575,121**	27,153,745
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	*12*	**124,986**	74,162
Customers' deposits	*13*	**20,526,048**	21,600,838
Due to head office and branches abroad	*23*	**3,571,060**	1,141,551
Derivative liabilities	*22*	**200,672**	242,325
Customer acceptances	*20*	**136,117**	323,910
Other liabilities	*14*	**959,779**	948,383
Total liabilities		**25,518,662**	24,331,169
EQUITY			
Allocated capital	*15*	**135,901**	135,901
Legal reserve	*16.1*	**67,951**	67,951
Fair value reserve		**(14,461)**	(13,088)
Other reserves	*16.2*	**12,620**	6,456
Retained earnings		**2,854,448**	2,625,356
Total equity		**3,056,459**	2,822,576
Total liabilities and equity		**28,575,121**	27,153,745

The accompanying notes form part of these financial statements.

These financial statements were approved on by

Chief Executive Officer

Chief Financial Officer

The independent auditors' report is set out on page 1-3.

Citibank N.A. - United Arab Emirates Branches

Statement of profit or loss

for the year ended 31 December 2018

	Note	**2018 AED'000**	2017 AED'000
Interest income	*24*	**1,126,513**	902,266
Interest expense	*25*	**(75,932)**	(61,612)
Net interest income		**1,050,581**	840,654
Income from Islamic financing	*27*	**9,473**	6,804
Net interest and Islamic financing income		**1,060,054**	847,458
Fees and commission income - net	*17*	**556,162**	563,680
Other operating income - net	*26*	**426,697**	402,461
Net (loss)/gain on investments		**(6,552)**	457
Total income		**2,036,361**	1,814,056
General and administrative expenses	*18*	**(972,439)**	(953,462)
Impairment losses	*28*	**(213,995)**	(304,483)
Profit for the year before taxation		**849,927**	556,111
Taxation	*19*	**(181,473)**	(116,747)
Profit for the year		**668,454**	439,364

The accompanying notes form an integral part of these financial statements.

The independent auditors' report is set out on page 1-3.

Citibank N.A. - United Arab Emirates Branches

Statement of comprehensive income

for the year ended 31 December 2018

	2018 AED'000	2017 AED'000
Profit for the year	**668,454**	439,364
Other comprehensive income:		
Items that will never be reclassified to profit or loss		
Re-measurement of post-employment benefits	**2,811**	2,806
Net charge from Citigroup Inc. - share based incentives	**3,353**	1,149
	6,164	3,955
Items that are or may be reclassified to profit or loss		
Change in fair value of investments classified as fair value through other comprehensive income (previously available for sale investments)	**(1,373)**	(13,088)
Net amount transferred to profit and loss on investments classified as fair value through comprehensive income (previously available for sale investments)	**-**	9,823
	(1,373)	(3,265)
Other comprehensive income for the year	**4,791**	690
Total comprehensive income for the year	**673,245**	440,054

The accompanying notes form an integral part of these financial statements.

The independent auditors' report is set out on page 1-3.

Citibank N.A. - United Arab Emirates Branches

Statement of changes in equity

for the year ended 31 December 2018

	Allocated capital AED'000	Legal reserve AED'000	Fair value reserve AED'000	Other reserves AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2017	135,901	67,951	(9,823)	2,501	3,210,772	3,407,302
Total comprehensive income						
Profit for the year	-	-	-	-	439,364	439,364
Other comprehensive income, net of tax	-	-	(3,265)	-	-	(3,265)
Share based payment transactions	-	-	-	1,149	-	1,149
Measurement of post-employment benefits	-	-	-	2,806	-	2,806
Repatriation of funds to head office	-	-	-	-	(1,024,780)	(1,024,780)
At 31 December 2017	135,901	67,951	(13,088)	6,456	2,625,356	2,822,576
At 1 January 2018	**135,901**	**67,951**	**(13,088)**	**6,456**	**2,625,356**	**2,822,576**
Total comprehensive income						
Profit for the year	-	-	-	-	**668,454**	**668,454**
Other comprehensive income, net of tax	-	-	**(1,373)**	-	-	**(1,373)**
Share based payment transactions	-	-	-	**3,353**	-	**3,353**
Measurement of post-employment benefits	-	-	-	**2,811**	-	**2,811**
Repatriation of funds to head office	-	-	-	-	**(439,362)**	**(439,362)**
At 31 December 2018	**135,901**	**67,951**	**(14,461)**	**12,620**	**2,854,448**	**3,056,459**

The accompanying notes form an integral part of these financial statements.

The independent auditors' report is set out on page 1-3.

Citibank N.A. - United Arab Emirates Branches

Statement of cash flows

for the year ended 31 December 2018

	2018	2017
	AED '000	AED '000
Cash flow from operating activities		
Profit for the year before tax	**849,927**	556,111
Adjustment for non-cash items:		
Depreciation	**25,875**	28,970
Loss on sale of property and equipment	**5,361**	-
Net charge for impaired loans and advances	**(86,184)**	94,235
Net interest and Islamic financing income	**(1,060,054)**	(847,458)
Derivatives	**40,160**	42,029
Net loss/(gain) on investments	**6,552**	(3,265)
Share-based incentive awards	**3,353**	1,149
Remeasurements of post-employment benefits	**2,811**	2,806
Operating cash before changes in operating assets and liabilities	**(212,199)**	(125,423)
Decrease/(increase) in reserve with the Central Bank of UAE	**738,560**	(257,330)
Decrease/(increase) in other balances and certificate of deposits with the Central Bank of UAE	**1,900,000**	(100,000)
(Increase)/decrease in due from Banks	**(143,634)**	644,662
Decrease in due from head office and branches abroad	**-**	117,046
Decrease/(increase) in loans and advances to customers	**177,042**	(158,603)
Decrease/(increase) in other assets excluding taxation and accrued interest	**24,143**	(20,681)
(Decrease)/increase in customer deposits	**(1,074,790)**	1,378,742
Increase/(decrease) in other liabilities excluding taxation and accrued interest	**1,886**	(141,735)
Taxes paid	**(162,709)**	(128,411)
Interest received	**1,103,051**	870,643
Interest paid	**(74,881)**	(61,916)
Net cash flows generated from operating activities	**2,276,469**	2,016,994
Cash flow from investing activities		
Purchase of property and equipment- net	**(99,258)**	(20,861)
Purchase of investments	**(48,757,010)**	(38,607,103)
Proceeds from sale of investments	**45,443,442**	39,651,337
Net cash flows (used in)/generated from investing activities	**(3,412,826)**	1,023,373
Cash flow from financing activities		
Repatriation of profits to Head office	**(439,362)**	(1,024,780)
Net cash flows used in investing activities	**(439,362)**	(1,024,780)
(Decrease)/increase in cash and cash equivalents	**(1,575,719)**	2,015,587
Cash and cash equivalents at the beginning of the year	**6,554,620**	4,539,033
Cash and cash equivalents at the end of the year (Note 21)	**4,978,901**	6,554,620

The accompanying notes form an integral part of these financial statements.

The independent auditors' report is set out on page 1-3.

1. Legal status and principal activities

Citibank N.A. – United Arab Emirates Branches ("the Bank") operates in the United Arab Emirates ("UAE") through its four branches (2017: four) located in the Emirates of Abu Dhabi, Dubai and Sharjah under a license issued by the Central Bank of UAE ("CBUAE").

The principal activities of the Bank include accepting deposits, granting loans and advances and providing consumer and corporate banking, including treasury activities.

The registered office and the address of the Bank is P.O. Box 749, Dubai, UAE.

The Bank is a branch of Citibank N.A. USA. The ultimate holding company of the Bank is Citigroup Inc.

2. Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting standards ("IFRS") as issued by International Accounting Standard Board ("IASB"), and the applicable requirements of the UAE Federal law No. 2 of 2015.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- fair value through other comprehensive income (previously) available-for-sale financial assets are measured at fair value;
- The liability for defined benefit obligations is recognized as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses; and
- Liabilities for cash settled share-based payment arrangements are measured at fair value.

c) Functional and presentation currency

The financial statements are presented in Arab Emirates Dirhams ("AED"), which is the Bank's functional currency, rounded to the nearest thousand except when otherwise indicated.

d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. The estimates and assumptions are based on management's best knowledge of current events, actions, 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 the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Information about significant areas of estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 3.

2. Basis of preparation (continued)

e) New and revised IFRSs applied on the financial statements

IFRS 9 - Financial Instruments

IFRS 9 – Financial Instruments includes a new model for classification and measurement of financial assets, a forward-looking 'expected loss' impairment model for debt instruments and a substantially reformed approach to hedge accounting. The standard replaces the existing guidance in IAS 39 – *Financial Instruments: Recognition and Measurement.* As permitted by transitional provisions of IFRS 9, the Group elected not to restate the comparative figures. Any adjustments to carrying amount of financial assets and liabilities at the date of transitions were recognized in opening retained earnings and other reserves of the current period.

The following table reconciles the original measurement categories and carrying amounts in accordance with IAS 39 and the new measurement categories with those under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018:

				Impact of IFRS 9		
	Original classification under IAS 39	**New classification under IFRS 9**	**Original carrying amount AED'000**	**Re-measurement AED'000**	**Re-classification AED'000**	**New carrying amount AED'000**
Financial assets						
On balance sheet						
Cash and balances with the Central Bank	Loans and receivables	Amortised cost	**11,936,302**	-	-	**11,936,302**
Due from banks	Loans and receivables	Amortised cost	**2,833,677**	-	-	**2,833,677**
Due from head office and branches abroad	Loans and receivables	Amortised cost	**37,459**	-	-	**37,459**
Derivative assets	Held at fair value	FVTPL	**257,209**	-	-	**257,209**
Loans and advances to customers	Loans and receivables	Amortised cost	**9,265,299**	-	-	**9,265,299**
Investment securities	Available-for-sale	FVOCI	**1,180,210**	-	-	**1,180,210**
Investment securities	Held for trading	FVTPL	**642,525**	-	-	**642,525**
Customer acceptances	Loans and receivables	Amortised cost	**323,910**	-	-	**323,910**
			26,476,591	-	-	**26,476,591**
Off balance sheet						
Loan commitments, financial guarantees and letters of credit	Amortised cost	Amortised cost	**7,426,087**	-	-	**7,426,087**
			33,902,678	-	-	**33,902,678**

The Bank has assessed that the re-measurement of financial assets and liabilities had no material impact on the opening balances and therefore any changes in the measurement has been reflected as a movement in the current year.

Further details of the specific IFRS 9 policies applied in the current period are described in more details in Note 3.

2. Basis of preparation (continued)

e) New and revised IFRSs applied on the financial statements (continued)

IFRS 15 Revenue from contracts with customers
IFRS 15 "Revenue from Contracts with Customers" was published by IASB on 28th May 2014.The core principle of the new Standard (which was effective in January 2018) is revenue recognition to depict the transfer of goods or services to customers in amounts that reflect the consideration to which he company expects to be entitled in exchange for those goods or services.

The revenue is recognized when the control over the goods or services is transferred to the customer. This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a comprehensive model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. Revenue under IFRS 15 is recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

a) Identify the contract(s) with a customer.
b) Identify the performance obligations in the contract.
c) Determine the transaction price.
d) Allocate the transaction price to the performance obligations in the contract.
e) Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard was effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. IFRS 15 had no material impact on the financial statements of the Bank. The impact on the bank's retained earnings was not material.

Clarifying share-based payment accounting (Amendments to IFRS 2)

The amendments cover three accounting areas:

Measurement of cash-settled share-based payments –The new requirements do not change the cumulative amount of expense that is ultimately recognized, because the total consideration for a cash-settled share-based payment is still equal to the cash paid on settlement.

Classification of share-based payments settled net of tax withholdings - The amendments 'introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if certain criteria are met.

2. Basis of preparation (continued)

f) *New and revised IFRS in issue but not yet effective*

The Branches has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	*Effective for annual periods beginning on or after*
IFRIC 23 *Uncertainty over Income Tax Treatments* The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.	1 January 2019
Annual Improvements to IFRS Standards 2015 - 2017 Cycle amending IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs.*	1 January 2019
Amendments to IFRS 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019
Amendments to IAS 28 *Investment in Associates and Joint Ventures* relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2019
IFRS 16 *Leases* IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019

2. Basis of preparation (continued)

f) *New and revised IFRS in issue but not yet effective (continued)*

New and revised IFRSs	*Effective for annual periods beginning on or after*
Amendments to IAS 19 *Employee Benefits* relating to Plan Amendment, Curtailment or Settlement. This amendment mentions that if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.	1 January 2019
Amendment to IFRS 3 *Business Combinations* relating to definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8 relating to definition of material	1 January 2020
Amendments to References to the *Conceptual Framework* in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	1 January 2020
IFRS 17 *Insurance Contracts* IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021.	1 January 2021
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Banks' financial statements for the period of initial application and adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of the Bank in the period of initial application.

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognized in the financial information. The Bank did not early adopt any part of IFRS 9 in previous periods.

3. Significant accounting policies

The Bank has consistently applied the following accounting policies to all periods presented in the financial statements. A number of new standards and interpretations became effective with an initial application date of 1 January 2018. These did not have a material impact on the financial statements of the Bank except for the accounting policies on financial instruments as set-out in Note 2.

a) Derivative financial instruments

Classification

The Bank enters into derivative financial instruments including forwards, futures, swaps and options in the foreign exchange and capital markets. Derivative financial instruments that do not qualify for hedge accounting are classified as "FVTPL – financial assets at fair value through profit and loss.

Initial and subsequent measurement

In the normal course of business, the fair value of a derivative on initial recognition is the transaction price. Subsequent to their initial recognition, derivative financial instruments are stated at fair values. Fair values are generally obtained by reference to quoted market prices in active markets, or by using valuation techniques when an active market does not exist.

Derivative financial instruments with positive market values (unrealized gains) are included in derivative assets and derivative financial instruments with negative market values (unrealized losses) are included in derivative liabilities.

Gains and losses on subsequent measurement

The gains or losses from derivative financial are taken to profit or loss.

Fair value derivatives and unquoted securities

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (such as models) are used to determine fair values these are tested before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments

b) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of replacing an item of property and equipment is recognized in the carrying value of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

3. Significant accounting policies (continued)

b) Property and equipment (continued)

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognized in profit or loss.

Property and equipment are impaired if the carrying amount of the asset or its cash generating unit exceed its recoverable amount. The impairment loss is recognized in profit or loss.
Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative years are as follows:

Computer systems	3 to 5 years
Furniture, equipment and motor vehicles	3 to 10 years
Leasehold improvements	10 to 15 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate

c) Provisions

A provision is recognized, if as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

d) Employees' end of service benefits and long-term incentive arrangements

The Bank provides for staff terminal benefits based on an estimation of the amount of future benefit that employees have earned in return for their service until their retirement. This calculation is performed annually by a qualified actuary using the projected unit credit method. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and withdrawal rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The actuarial gains/losses arise out of differences between actuarial assumptions and actual experience regarding issues such as salary increase assumptions, mortality and withdrawal probabilities. As per IAS 19, such gains and losses that arise due to re measurement of the net defined benefit liability should be recognized in other comprehensive income.

Further, the Bank contributes to the pension scheme for UAE nationals under the UAE pension and social security law. This is a defined contribution pension plan and the Bank's contributions are charged to profit or loss in the period to which they relate. In respect of this scheme, the Bank has a legal and constructive obligation to pay the contributions as they fall due and no obligations exist to pay the future benefits.

3. Significant accounting policies (continued)

e) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist of cash in hand and balances with the Central Bank of UAE (excluding statutory reserve), and amounts due from and due to head office and branches abroad and banks maturing within three months from the date of their initial recognition and with insignificant credit risk.

f) Taxation

Tax expense comprises current and deferred tax. Current and deferred taxes are recognized in profit or loss except to the extent that they relate to the items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, in accordance with regulations issued by the Emirates of Abu Dhabi, Dubai and Sharjah.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that effects neither accounting nor taxable profit or loss;
- the measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued)

g) Revenue recognition

Interest income and expenses

Interest income and expense for all interest bearing financial instruments are recognized in 'interest income' and 'interest expense' in profit or loss on an accrual basis using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that discounts estimated future cash receipts and payments earned or paid on a financial asset or a liability through its expected life or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rates, the Bank estimates cash flows considering all contractual terms of the financial instruments, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees 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 liability

Interest income and expenses

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment.

Fees and commission income and expenses

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of effective interest rate.

Other fees and commission income earned from the provision of services are recognized as revenue, as and when the services are rendered or time proportion basis as applicable.

Other operating income

Other operating income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

Offsetting

Income and expenses are presented on a net basis only when permitted under IFRSs/IASs, or if gains and losses arising from a Bank of similar transactions such as in the Bank's trading activity.

3. Significant accounting policies (continued)

h) Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency using the foreign exchange rate ruling at the date the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the date of the transaction.

Forward foreign exchange contracts are translated into the functional currency at mid-market rates of exchange ruling at the reporting date. Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on translation of investments in respect of which an election has been made to present subsequent changes in fair value in other comprehensive income.

i) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The financial guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable.

j) Share based payments

The Bank participates in the Citigroup Inc. ("Citigroup") share-based incentive plans under which Citigroup delivers shares to the Bank's employees.

The fair value of share-based incentive awards is determined at the time of grant and is expensed over the vesting period, adjusted by an estimate of forfeitures during that period, with a corresponding amount recognized in equity. Subsequent changes in the fair value of all unexercised awards are reviewed annually and any changes in value are recognized in equity.

k) Sale and repurchase agreements

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo" or "stock lending"), the arrangement is accounted for as a borrowing, and the underlying asset continues to be recognized in the Bank's financial statements. Conversely, when the Bank's purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo" or "stock borrowing"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognized in the Bank's financial statements. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

3. Significant accounting policies (continued)

l) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

m) Changes in accounting policies and disclosures

Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 3 to all periods presented in these financial statements.

There are a number of accounting standards that have been issued by the International Accounting Standards Board (IASB), which became effective during 2018. They include:

a. IFRS 2 Share based payment amendments 1 January 2018 (refer to Note 2)
b. IFRS 9 Financial Instruments 1 January 2018
c. IFRS 15 Revenue from Contracts with Customers 1 January 2018 (refer to Note 2)

IFRS 9 – Financial Instruments

IFRS 9 – Financial Instruments. The new standard includes a new model for classification and measurement of financial assets, a forward-looking 'expected loss' impairment model for debt instruments and a substantially reformed approach to hedge accounting. The standard replaces the existing guidance in IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 is effective from 1 January 2018.

Classification and measurement:

From a classification and measurement perspective, all financial assets, except equity instruments and derivatives, are assessed based on the combination

(i) the entity's business model for managing the assets (and whether collecting cash flows, selling financial assets, or both are integral to the business model), and
(ii) the instruments' contractual cash flow characteristics (whether the contractual cash flows are solely payments of principal and interest (SPPI).

The IAS 39 measurement categories have been replaced by: fair value through profit or loss (FVTPL), fair value that qualify for amortised cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces an mismatch.

The accounting for financial liabilities is largely the same as the requirements under IAS 39, except for the treatment of losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements are now OCI (instead of P&L) with no subsequent reclassification to the statement of profit and loss, unless an accounting mismatch in would arise from presentation in OCI, in which case the own credit gains or losses continue to be presented in P&L.

3. Significant accounting policies (continued)

m) Changes in accounting policies and disclosures (continued)

IFRS 9 – Financial Instruments

The impact to the Bank due to the changes to classification and measurement of financial instruments from the adoption of IFRS 9 as at 1 January 2018 is highlighted below:

- Held-for-Trading financial assets, under IAS 39, are classified and measured as FVTPL
- Financial assets designated at fair value, under IAS 39, are classified and measured at FVTPL due to the model assessment or the fact that the designation eliminates or significantly reduces an accounting mismatch.
- Loans and advances to banks and to customers classified and measured at amortised cost under IAS 39, are to measured and classified at amortised cost under IFRS 9 unless they fail the business model or SPPI test.
- Investment debt securities previously classified as Available-for-Sale under IAS 39, and measured at FVOCI. This consists of government and corporate bonds that are held for an indefinite period of time as they may be sold in response to needs for liquidity or changes in interest rates or exchange rates. These debt securities continue to be classified and measured as FVOCI as they are a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets unless they fail the SPPI criterion

For financial liabilities, IFRS 9 largely retains the pre-existing requirements for classification and measurement previously included in IAS 39. However, under IFRS 9 fair value changes on financial liabilities which are designated at fair value through profit or loss are attributable to changes in the credit risk of the liability are presented in other comprehensive income.

Financial Assets and Financial Liabilities

i) Financial Assets – Derivatives and Equity Instruments

Under IFRS 9, derivatives and in-scope equity instruments are measured at fair value, with changes reflected through the profit and loss account (FVTPL). Exceptions can only apply if the derivative is part of a hedge accounting programme.

The Bank measures all equity instruments in scope of IFRS 9 at FVTPL

ii) Financial Assets – Debt Instruments

Under IFRS 9, the following primary classification and measurement categories exist for financial assets-debt instruments:

- Amortized cost;
- Fair value through other comprehensive income (FVOCI); and
- Fair value though profit or loss (FVTPL)

In addition, IFRS 9 provides special designation options for financial assets-debt instruments that are either measured at 'amortized cost' or 'FVOCI'. An entity has an option to designate such instruments at FVTPL only where this designation eliminates or significantly reduces an accounting mismatch.

3. Significant accounting policies (continued)

m) Changes in accounting policies and disclosures (continued)

ii) Financial Assets – Debt Instruments (continued)

The following paragraphs explain the classification criteria for the 3 categories in more detail.

- *Amortized Cost*

A financial asset-debt instrument shall be classified and subsequently measured at amortized cost only if both of the following conditions are met:

a) Business Model test: the financial asset--debt instrument is held in a business which has a business model whose objective is to hold assets in order to collect contractual cash flows; and

b) SPPI test: the contractual terms of the financial asset-debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

- *FVOCI*

A financial asset shall be classified and measured at FVOCI if both of the following conditions are met:

a) Business Model test: the financial asset is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets: and

b) SPPI test: the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

- *FVTPL*

Any financial instrument that does not fall into either of the above categories shall be classified and measured at fair value through profit and loss. For example, where the asset is not held within a business model whose objective is to hold to collect the contractual cash flows or within a business model whose objective is to both collect the cash flows and to sell the assets, then the asset will be classified as FVTPL. Moreover, any instrument for which the contractual cash flow characteristics do not comprise solely payments of principal and interest (that is, they fail the SPPI test) must be classified in the FVTPL category.

Derecognition

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in profit or loss account on derecognition of such securities.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

3. Significant accounting policies (continued)

m) Changes in accounting policies and disclosures (continued)

Business Model Assessment

The Bank's business model is determined at a level that reflects how Banks of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument (i.e., it is not an instrument-by-instrument assessment). This assessment is performed at a higher level of aggregation. The level of aggregation is at a level which is reviewed by key management personnel, enabling them to make strategic decisions for the business. The Bank has more than one business model for managing its financial instruments.

The assessment of the business model requires judgment based on facts and circumstances, considering quantitative factors and qualitative factors. The Bank considers all relevant evidence that is available at the date of the assessment. Such relevant evidence includes, but is not limited to:

a) How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel;

b) The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed;

c) How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and

d) The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

<u>Assessment of whether the contractual cash flows are solely payments of principal and interest</u>

If an instrument is held in either a hold to collect or a or hold to collect and sell business model, then an assessment to determine whether contractual cash flows are solely payments of principal and interest on the principal outstanding (SPPI) is required to determine classification. For SPPI, interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding during a period of time. It can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time and a profit margin that is consistent with a basic lending arrangement. Other contractual features that result in cash flows that are not payments of principal and interest result in the instrument being measured at FVTPL.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that meet the SPPI criteria.

The contractual cash flow test must be performed at initial recognition of the financial asset and, if applicable, as at the date of any subsequent changes to the contractual provisions of the instrument

3. Significant accounting policies (continued)

m) Changes in accounting policies and disclosures (continued)

iii) Financial liabilities

For financial liabilities there are two measurement categories: amortized cost and fair value through profit and loss (including a fair value option category).

The Bank designates financial liabilities at fair value through profit or loss if one of the following exist:

- The liability is managed and performance evaluated on a fair value basis
- Electing fair value will eliminate or reduce an accounting mismatch; or
- The contract contains one or more embedded derivatives

For financial liabilities designated at fair value through profit or loss, fair value changes are presented as follows:

- The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability must be recorded in OCI, and
- The remaining amount of the change in the fair value of the liability is recorded in P&L.

Upon early extinguishment (e.g., liability is repurchased before maturity), changes in own credit previously recorded in OCI will not be recycled to P&L. The OCI balance is reclassified directly to retained earnings.

iv) Reclassifications

Financial asset classification is determined at initial recognition and reclassifications are expected to be extremely rare. A financial asset can only be reclassified if the business model for managing the financial asset changes. Reclassification of financial liabilities is not permitted. Reclassification of financial instruments designated under FVO or FVOCI is also not permitted.

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value. Impairment test is performed before the modifications.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with IFRS 9, the Bank shall recalculate the gross carrying amount of the financial asset and shall recognize a modification gain or loss in profit or loss.

As the Bank classifies a financial asset at initial recognition on the basis of the contractual terms over the life of the instrument, reclassification on the basis of a financial asset's contractual cash flows is not permitted, unless the asset is sufficiently modified that it is derecognized.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

3. Significant accounting policies (continued)

m) Changes in accounting policies and disclosures (continued)

Impairment

The IFRS 9 impairment standard applies to any debt instruments measured at amortised cost or at fair value through other comprehensive income and also to off balance sheet loan commitments and financial guarantees, including:

- Corporate and commercial loans;
- Deposits with banks;
- Reverse repurchase agreements and securities borrowing transactions;
- Investments in debt instruments measured at fair value through other comprehensive income (FVOCI);
- All irrevocable loan commitments that are not measured at FVTPL;
- Lease receivables recognized , acting as the lessor, that are within the scope of IAS 17 (Leases);
- Trade receivables in the scope of IFRS 15 (Revenue contracts with customers); and
- Any other receivables (e.g., brokerage receivables)

Expected credit loss impairment model

Credit loss allowances will be measured on each reporting date according to a three-Stage expected credit loss impairment model under which each financial asset is classified in one of the stages below:

Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults expected over the next 12 months. Interest is calculated based on the gross carrying amount of the asset.

Stage 2 – Following a significant increase in credit risk relative to the risk at initial recognition of the financial asset, a loss allowance is recognized equal to the full credit losses expected over the remaining life of the asset. Interest is calculated based on the gross carrying amount of the asset.

The credit losses for financial assets in Stage 1 and Stage 2 are measured 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 Bank expects to receive).

Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to the full lifetime expected credit losses will be recognized. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

3. Significant accounting policies (continued)

m) Changes in accounting policies and disclosures (continued)

Evidence that a financial asset is impaired includes observable data that comes to the attention of the Company such as:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  - adverse changes in the payment status of borrowers in the portfolio;

  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

Loans are written off when there is no realistic probability of recovery

The estimation of an expected credit loss (ECL) is required to be unbiased and probability weighted, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The estimate also considers the time value of money.

The measurement of an ECL is primarily determined by an assessment of the financial asset's probability of default (PD), loss given default (LGD) and exposure at default (EAD) where the cash shortfalls are discounted to the reporting date. For a financial asset in Stage 1, the Bank will utilise a 12-month PD, whereas a financial asset within Stage 2 and Stage 3 will utilise a lifetime PD in order to estimate an impairment allowance.

Wholesale Classifiably Managed Exposures

An impairment allowance will be estimated for Corporate loans utilising sophisticated models depending on the relative size, quality and complexity of the portfolios.

Delinquency Managed Exposures

In particular, for Consumer loan portfolios, where the Bank does not have access to detailed historical information and/or loss experience, the Bank will adopt a simplified approach using backstops and other qualitative information specific to each portfolio.

Other Financial Assets Simplified Approaches

For other financial assets, being short term and simple in nature, the Bank will apply a simplified measurement approach that may differ from what is described above. This approach leverages existing models currently used globally for stress-testing and regulatory capital reporting purposes, but incorporates specifically developed components to make the estimates compliant with IFRS 9.

3. Significant accounting policies (continued)

m) Changes in accounting policies and disclosures (continued)

Significant increase in credit risk (SICR)

A financial asset will move from Stage 1 to Stage 2 if there has been a significant increase in credit risk relative to initial recognition. The Bank assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. Determining whether there has been a significant increase in credit risk requires significant estimates and judgement.

When making this assessment, the Bank considers the increase in the risk of default (both in relative terms and absolute terms) over the expected life of the financial asset. A given change in absolute terms of the risk of a default since initial recognition will be more significant for a financial instrument with a lower initial risk of default compared to one with a higher initial risk of default. A change the further qualitative indicators that act as backstops in the probability of default of the obligor is driven primarily by the obligor risk rating. Internal credit risk rating categories will capture the further qualitative indicators that act as backstops.

Staging

Financial assets can move in both directions through the Stages of the IFRS 9 impairment model depending on whether the assessment of whether there is a significant increase of credit risk since initial recognition or whether the asset is credit impaired subsequently changes.

In order to determine the ECL reporting stage for an obligation, the Bank will check whether the asset is already impaired (Stage 3) or not (Stage 1 and 2). Stage 2 will be determined by the existence of a significant credit deterioration (or credit improvement) compared with the credit rating at initial recognition. Stage 1 assets do not have significant credit deterioration compared with that at initial recognition. All newly acquired or originated financial assets that are not purchased or originated credit impaired (POCI) are recognised in Stage 1 initially. POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Bank recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. The existence of a (statistically) significant deterioration/improvement is combined with the materiality of the probability of default to determine whether a transfer in stages is required. Further, the Bank will not rebut the presumption that exposures 30 days past due are deemed to have incurred a significant increase in credit risk. Additional qualitative reviews are also be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.

Changes in the required credit loss allowance, including the impact of movements between Stage 1 (12-month expected credit losses) and Stage 2 (lifetime expected credit losses), are recorded in profit or loss as an adjustment of the provision for credit losses.

Curing period

The Bank continues to monitor such financial instruments for a minimum probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposure from Lifetime ECL (Stage 2) to 12 months ECL (Stage 1).

The Bank is observing a probationary period of a minimum of 3 instalments (for repayments which are on a quarterly basis or shorter) and 12 months (in cases where instalments are on a longer frequency than quarterly) after the restructuring, before upgrading from Stage 3 to 2.

3. Significant accounting policies (continued)

m) Changes in accounting policies and disclosures (continued)

Expected life

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk, including possible drawdowns and the expected maturity of the financial asset. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Stage 3 definition of default

As mentioned above, to determine whether an instrument should move to a lifetime ECL, the change in the risk of a default occurring over the expected life of the financial instruments is considered.

The Bank applies a default definition that is consistent with that used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. The definition of default used for this purpose is applied consistently to all financial instruments unless information becomes available that demonstrates another default definition is more appropriate for a particular financial instrument.

A default shall be considered to have occurred in regard to a particular obligor when either or both of the following have taken place

1. There are exposures which are more than 90 days past-due;
2. The obligor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due

Forward Looking Information and multiple economic scenarios

Estimates must consider information about past events, current conditions and reasonable and supportable forecasts around future events and economic conditions. The application of forward looking information (FLI) requires significant estimates and judgment.

The Bank has developed models that include multiple economic scenarios that consider the variability and uncertainty in expected losses including factors such as GDP growth rates and unemployment rates, provided by the economists in Citi's Global Country Risk Management (GCRM). These estimates are based on portfolio data that reflect the current risk attributes of obligors and debt instruments combined with loss projections derived from the rating migration, PD and loss models built for estimating stress credit losses for wholesale portfolios. As mentioned above, these models have incorporated specifically developed components to make the estimates compliant with IFRS 9. The PD, LGD and Credit Conversion Factor (CCF) models are calibrated to the observed historical patterns of defaults and losses over several years and linked to economic drivers. The model reflects different loss likelihood and loss severity as a function of different economic forecasts. The Bank does not use the best case or worst case scenario, but assesses a representative number of scenarios (at least 3 when applying a sophisticated approach and where multiple scenarios are deemed to have a material non-linear impact) and probability weights these scenarios to determine the ECL.

The Bank has not made any material change in the estimation techniques or significant assumptions during the reporting period. The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2018 for the years 2019 to 2022, for UAE which is the country where the Bank operates and therefore is the country that has a material impact on ECLs.

3. Significant accounting policies (continued)

m) Changes in accounting policies and disclosures (continued)

Forward Looking Information and multiple economic scenarios (continued)

List of macro variables used	Definition	Range
Oil Price, Brent USD	Price per barrel	Between USD 40 and USD 90
Real GDP	Growth % change	Between 0% and 4.6%
Real Non-oil GDP Growth	% change	Between 0% and 5.1%

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data of more than five years.

Presentation of the allowance of 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 asset
- Loan commitments and financial guarantee contracts: as a provision
- Debt instruments measured at FVOCI: as the carrying amount of these financial assets is at fair value, no loss allowance is recognised in the statement of financial position.

Measuring ECL - Explanation of inputs, assumptions and estimation techniques

Central to the projections of lifetime ECL are the lifetime risk parameters, i.e., probability of default (PD), loss given default (LGD) and exposure at default (EAD).

The new Standard requires that the reserve calculation should incorporate forward-looking information in relation to future macroeconomic scenarios. As such, Citi has decided to leverage models developed for stress testing (primarily to support the comprehensive Capital Analysis and Review ("CCAR") credit models) as the basis for the IFRS-9 implementation, developing certain components as needed to meet the IFRS-9 requirement for the reserve process for international Classifiably Managed Portfolios.

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

- Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. (LGD) varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. (LGD) is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-months LGD is the of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

3. Significant accounting policies (continued)

n) Critical judgments in applying the group's accounting policies introduced on adoption of IFRS 9

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

- Business model assessment

Classification and measurement of financial assets depends on the results of the "solely payments of principal and interest" and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

- Significant increase of credit risk

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

- Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics according to product. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

- Models and assumptions used

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

3. Significant accounting policies (continued)

n) Financial instruments (under IAS 39)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument for another entity.

Classification

The Bank classifies its financial assets at initial recognition in the following categories:

- Financial assets at fair value through profit or loss: This category has two sub-categories: financial assets held for trading and those designated to be fair valued through profit or loss ("FVPL") at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges.
- Loans and advances: Loans and advances are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to the borrower with no intention of trading the receivable.
- Held-to-maturity: Investments classified as held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the intention of and the ability to hold to maturity.
- Available-for-sale: Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or not classified as (a) loans and advances, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Recognition and initial measurement

The Bank initially recognizes loans and advances and deposits on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Bank 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 at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

De- recognition

Financial assets are derecognized when the contractual rights to receive cash flows from the asset expire or where the Bank has transferred substantially all the risks and rewards of ownership. A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire.

Subsequent measurement

Subsequent to initial recognition, all financial instruments to be fair valued through profit or loss and available-for-sale assets are measured at fair value, except any instrument that does not have a reliably measurable fair value, in which case financial instruments are measured as set out in the fair value measurement principles below.

All held-to-maturity financial instruments and loans and advances are measured at amortized cost using the effective interest method less impairment losses, if any.

3. Significant accounting policies (continued)

n) Financial instruments (under IAS 39) (continued)

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the investments at fair value through profit or loss are included in profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale investments are recognized directly in equity through other comprehensive income, until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. In cases where available-for-sale investments with a fixed maturity are reclassified to held-to-maturity investments, the fair value gains or losses up until the date of the reclassification are held in equity and amortized to profit or loss over the remaining life of the held-to-maturity investments using the effective interest rate method.

Amortized cost measurement principles

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal re-payments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Premiums and discounts including initial transaction costs are included in the carrying amount of the related instrument.

Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably. In general, the Bank considers a decline of twenty percent to be significant and a period of nine months to be prolonged. However in specific circumstances a smaller decline or a shorter period may be appropriate.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Bank. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Bank considers evidence of impairment for loans and advances at both a specific asset and collective level.

Loans and advances are presented net of allowances for impairment. All individually significant loans and advances are assessed for specific impairment. All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

3. Significant accounting policies (continued)

n) Financial instruments (under IAS 39) (continued)

Identification and measurement of impairment (continued)

In assessing collective impairment the Bank uses statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in statement of profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through statement of profit or loss.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower then an assessment is made whether the financial asset should be derecognized. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case the original financial asset is derecognized and the new financial asset is recognized at fair value. The impairment loss is measured as follows:

- If the expected restructuring does not result in de-recognition of the existing asset, the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset
- If the expected restructuring results in de recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its de-recognition. This amount is discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired assets continues to be recognized through the unwinding of the discount. When an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale investment security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale investment security is recognized in other comprehensive income.

The Bank writes off certain loans and advances and investment securities when they are determined to be uncollectible

3. Significant accounting policies (continued)

o) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when, and only when, the Bank has a legally enforceable right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

p) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or liability is measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3. Significant accounting policies (continued)

p) Fair value measurement principles (continued)

Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, bank, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.

Level 2: Valuation techniques based on observable input, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on unobservable data and the unobservable inputs have a significant effect on the instrument' valuation. This category includes instruments that are valued based on the quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

q) Islamic financing and investing contracts

The Bank engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Ijara, Murabaha, Mudaraba and Wakala. These are accounted in accordance with IFRS 9 (Previously IAS 39) – Financial instrument: Recognition and Measurement.

Definition

Ijara

Ijara consists of Ijara muntahia bitamleek. Ijara muntahia bitamleek is an agreement whereby the Bank (the lessor) conveys to the customer (the lessee), in return for a specific rent, the right to use a specific asset for a specific period of time, against payment of fixed periodical and variable rental. Under this agreement, the Bank purchases or constructs the asset and rents it to the customer.

The contract specifies the leasing party and the amount and timing of rental payments and responsibilities of both parties during the term of the lease. The customer provides the Bank with an undertaking to settle the rental amount as per the agreed schedule. The Bank retains the ownership of the assets throughout the entire lease term. At the end of the lease term, the Bank sells the leased asset to the customer at a nominal value based on a sale undertaking by the Bank.

Murabaha

An agreement whereby the Bank sells to a customer a commodity and /or other assets, which the Bank has purchased and acquired, based on promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

3. Significant accounting policies (continued)

q) Islamic financing and investing contracts (continued)

Definition (continued)

Mudaraba

A contract between the Bank and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any generated profits are distributed between the parties according to the profit shares that were pre-agreed upon in the contract. The Mudarib is responsible for all losses caused by his misconduct, negligence or violation of the terms and conditions of the Mudaraba; otherwise, losses are borne by Rab Al Mal.

Wakala

An agreement whereby the Bank provides a certain sum of money to an agent (Wakkil) who invests it in Sharia's compliant transactions according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount).

Revenue Recognition

Ijara

Income from Ijara is recognized on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

Murabaha

Income from Murabaha is recognized on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

Mudaraba

Income or losses on Mudaraba financing are recognized on an accrual basis if they can be reliably estimated. Otherwise, income is recognized on distribution by the Mudarib, whereas the losses are charged to the consolidated statement of profit or loss on their declaration by the Mudarib.

Wakala

Estimated income from Wakala is recognized on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

4. Financial risk management

Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

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

Risk management framework

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect the changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The overall risk management framework relies upon the Bank's internal entity wide standards and covers credit, market, operational and liquidity risks, including undertaking, measuring, monitoring and reporting of risks. It may be noted that:

- These standards are governed by specific policies which are defined and document
- Risks are measured using defined methodologies.
- Limits for credit, market and liquidity risks are approved by Risk Management, which is independent of the Business areas.
- Dedicated risk management and control functions are in place for credit (Corporate and Consumer), market, liquidity and operational risks.

Additionally, Risk Management maintains oversight of the regulatory, economic, reputation and legal risks associated with the above-mentioned risk areas.

In order to effectively discharge this responsibility the Bank has established the Country Coordinating Committee (Management Committee), Country Asset and Liability Committee (ALCO), Credit Review Committee and Business Risk Compliance and Control Committee which are responsible for developing and monitoring risk management policies in their specified areas. These committees comprise key officers, who convene frequently to appraise the Bank's risk profile and various risk related issues.

4. Financial risk management (continued)

a) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations arising principally from the Bank's loans and advances to customers, amounts due from banks and investment securities. For risk management purposes, credit risk arising on trading investments is managed independently, but reported as a component of market risk exposure.

The Bank's credit risk management culture is based on the concept that independent risk management works with the business with the goal of taking intelligent risk with shared responsibilities, without forsaking individual accountability. Both business credit officers and independent risk credit officers approve credit, with the covering limit approval by independent risk. Practical objectives are set by business and independent risk management teams in order to reflect their view of the risks and rewards arising from market conditions. Business and independent risk management teams are responsible for adjusting these strategies and budgets to manage through with changing environments. The business is looked at as the institution's first line of risk defense given their unique access and proximity to their clients on a real time basis. Independent risk management reviews risk profile of the portfolios, including suitability and appropriateness to ensure that the impact of all risk disciplines is understood.

Corporate credit risk

The management of corporate credit risk is grounded in a series of fundamental policies including:

- Joint business and independent risk management responsibility for managing credit risk;
- Implementing Citigroup global credit policies in consultation with business units, covering collateral requirements, credit assessment and due diligence, obligor and facility risk rating and reporting, documentary and legal procedures, remedial management and compliance with regulatory and statutory requirements;
- Establishment of authorization structure and limits for the approval and renewal of credit facilities. Lending authorities have been established at various levels together with a framework of dual/multiple credit approval delegated authorities;
- A minimum of two authorized credit officer signatures are required on extensions of credit (one from a sponsoring credit officer in the business and one from a credit officer in credit risk management);
- Establishing limits and actual level of exposure to obligors are reviewed at least annually and reapproved at the appropriate approval authority level;

Analytics used to manage the credit risk of consumer portfolios include the ability to segment portfolios and to be able to review metrics that could include leading indicators such as approval rates, coincident indicators such as delinquency rates and lagging indicators such as write-off rates. Indicators of performance are compared with both historical performance as well as expected results – where appropriate.

Periodic reviews are conducted by the internal audit team to audit compliance with all aspects of the credit policies governing lending.

Exposure to credit risk

The Bank monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument:

4. Financial risk management (continued)

a) Credit risk (continued)

Exposure to credit risk (continued)

	2018			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Corporate Loans				
Grades 1 to 7: Current	**4,074,105**	**36,237**	**15,357**	**4,125,699**
Grades 1 to 7: Watch list	-	-	**7,436**	**7,436**
Grade 7: Substandard	-	-	-	-
Grade 10: Doubtful/Loss	-	-	**320,284**	**320,284**
Total gross carrying amount corporate loans	**4,074,105**	**36,237**	**343,077**	**4,453,419**
Consumer Loans	**5,169,686**	**215,577**	**84,566**	**5,469,829**
Due from banks	**4,012,164**	-	-	**4,012,164**
Due from head office and other branches	**66,048**	-	-	**66,048**
Loan commitments, financial guarantees and letters of credit	**8,030,300**	-	-	**8,030,300**
Total Gross Amount	**21,352,303**	**251,814**	**427,643**	**22,031,760**
Less: Expected credit loss	**(132,962)**	**(205,572)**	**(386,493)**	**(725,027)**
Less: Interest in suspense	-	-	**(23,780)**	**(23,780)**
Net carrying amount	**21,219,341**	**46,242**	**17,370**	**21,282,953**

	2017			
	Loans and Advances AED'000	Due from Banks and branches abroad AED'000	Off –Balance Sheet AED'000	Total AED'000
Corporate Loans				
Grades 1 to 7: Current	4,356,890	2,871,136	7,426,087	14,654,113
Grades 1 to 7: Watch list	30,398	-	-	30,398
Grade 7: Substandard	1,568	-	-	1,568
Grade 10: Doubtful/Loss	407,902	-	-	407,902
Consumer Loans	5,301,681			5,301,681
Total gross carrying amount	10,098,439	2,871,136	7,426,087	20,395,662
Less: Impairment Loss Allowance	(811,211)	-	-	(811,211)
Less: Interest in suspense	(21,929)			(21,929)
Carrying mount	9,265,299	2,871,136	7,426,087	19,562,522

4. Financial risk management (continued)

a) Credit risk (continued)

Exposure to credit risk (continued)

Expected credit loss allowance

A summary of the provision for credit loss and the net movement on financial instruments by category are as follows:

	1 January 2018 AED 000	Net charge/ (reversal) during the year AED 000	Other movement during the year AED 000	31 December 2018 AED 000
Due from banks	-	886	-	886
Loans and advances to customers	811,211	(97,785)	-	713,426
Total on balance sheet	**811,211**	**(96,899)**	-	**714,312**
Loan commitments, financial guarantees and letters of credit	-	10,715	-	10,715
Total off balance sheet	-	**10,715**	-	**10,715**
Total expected credit loss allowance	**811,211**	**(86,184)**	-	**725,027**

The Bank has assessed the provision requirement pursuant to clause 6.4 of the Central Bank of UAE guidance and compared it to IFRS 9 for both 1 January 2018 and 31 December 2018 and it has been identified that the provision under IFRS 9 for stage 1 and stage 2 is higher than the general provision under circular 28/2010 of the Central Bank of UAE and stage 3 provisions under IFRS 9 is higher than specific provisions under the guidance of circular 28/2010 of the Central Bank of UAE and therefore no amount shall be transferred to the regulatory impairment reserve.

	Investment Securities		**Derivative Assets**	
	2018 AED'000	2017 AED'000	**2018 AED'000**	2017 AED'000
Grades 1 to 7:Current	**5,136,281**	1,822,735	**175,396**	257,209
Grades 1 to 7: Watch list	-	-	-	-
Carrying amount	**5,136,281**	1,822,735	**175,396**	257,209

4. Financial risk management (continued)

a) Credit risk (continued)

Groupings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped based on shared risk characteristics, such as:

- Instrument type;
- Credit risk grade;
- Collateral type;

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

The Bank uses external benchmark information for portfolios with limited historical data and for low default portfolios where there is no instances of historical default.

The Bank has in place policies, which govern the determination of eligibility of various collaterals including credit protection, to be considered for credit risk mitigation, which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigating. The Bank's major collaterals are mortgaged properties, cash margins, vehicles and other register-able assets.

The collateral is valued periodically ranging from quarterly to annually, depending on the type of collateral. Specifically for mortgaged property, a framework for valuation of mortgaged properties is established to ensure adequate policies and procedures are in place for efficient and proper conduct of valuation of mortgaged properties and other related activities in relation to the interpretation, monitoring and management of valuation of mortgaged properties.

Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	2018	2017
	AED'000	AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from banks	**4,011,278**	2,833,677
Due from head office and branches abroad	**66,048**	37,569
Derivatives	**175,396**	257,209
Loans and advances to customers	**9,186,042**	9,265,299
Investment securities	**5,136,281**	1,822,735
Customer acceptances	**136,117**	323,910
Credit risk exposures relating to off-balance sheet items are as follows:		
Loan commitments and other off balance sheet items	**8,030,300**	7,426,087
	26,741,462	21,966,486

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2018 and 2017 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As can be seen above, the most significant exposures arise from loans and advances to customers (including commitments) and amounts due from banks.

4. Financial risk management (continued)

a) Credit risk (continued)

Analysis of collaterals by type is presented in the following table:

	Collaterals 2018 AED'000	2017 AED'000
Individually impaired		
Pledged deposits	**108**	-
Investment securities	-	-
Property	**18,570**	-
Others	-	-
Gross amount	**18,678**	-
Past due but not impaired		
Pledged deposits	-	-
Investment securities	-	-
Property	-	-
Others	-	-
Gross amount	-	-
Neither past due nor impaired		
Pledged deposits	**240,405**	213,136
Investment securities	**2,646,947**	2,618,490
Guarantees	**190,589**	498,774
Property	**65,983**	119,847
Others	-	-
Total	**3,162,602**	3,450,247

Collaterals

The Bank holds collateral against loans and advances in the form of cash, guarantees, mortgages and liens over properties or other securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are subsequently monitored on a periodic basis. Generally, collateral is not held against investment securities and amounts due from banks, and no such collateral was held at 31 December 2018 or 2017.

4. Financial risk management (continued)

a) Credit risk (continued)

Loans with renegotiated terms

Restructuring activity is designed to manage customer relationships, maximize collection opportunities and avoid foreclosure or repossession, if possible. Restructuring is done based on indications or criteria which, in the opinion of management, evidence the probability that payment will continue. At 31 December 2018 renegotiated loans amount to AED Nil (2017: AED 103.45 million).

Impaired loans and advances

Impaired loans and advances and non-trading investments are financial assets for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreements.

Measurement of impairment losses and write offs under IAS 39

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are specific loss components that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Corporate loans

The Bank determines the allowance appropriate for each individually significant loan and advance on an individual basis. Allowances are made in accordance with IFRS where early warning signs of losses are evident. Corporate allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts.

The Bank writes off a corporate loan/an investment (and any related allowances for impairment) when the Bank's Credit Review Committee determines that the loans/investments are uncollectible. This determination is reached after considering information such as the significant deterioration in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Consumer loans

All consumer loans other than, credit cards, are classified as non-performing at 90 days and interest is suspended accordingly. Credit cards are considered impaired and are written off in accordance with the write off policy of the Bank as described below. Further, in accordance with the requirements of the Central Bank of UAE, in the event of the interest of one product being suspended the Bank suspends interest on all other products of the customer.

Write off decisions are based on a product specific past due status. Credit card loans are written off on 180 days past due and other consumer loans at 120 days past due. During the year consumer loans amounting to AED 300 million (2017: AED 251 million) were written off.

4. Financial risk management (continued)

a) Credit risk (continued)

Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The tables below set out the concentration of credit risk by sector, geography and currency.

2018 ***Concentration by sector***	**Loans and advances gross AED'000**	**Investment securities AED'000**	**Derivatives assets AED'000**	**Due from banks/ head office and branches abroad AED'000**	**Total on balance sheet AED'000**
Commercial and business:-					
Agriculture & allied activities	3,397	-	-	-	3,397
Mining & quarrying	307,908	-	-	-	307,908
Manufacturing	948,863	-	192	-	949,055
Electricity & water	122,397	-	-	-	122,397
Construction	174,553	-	-	-	174,553
Real estate	64,662	-	-	-	64,662
Trade	1,291,391	-	121	-	1,291,512
Transport & communication	405,017	-	-	-	405,017
Services	337,781	-	322	-	338,103
Total commercial and business	3,655,969	-	635	-	3,656,604
Financial institutions	723,409	-	174,761	4,078,212	4,976,382
Government and public sector entities	72,527	5,136,281	-	-	5,208,808
Consumer banking	5,469,829	-	-	-	5,469,829
Others	1,514	-	-	-	1,514
Total Gross Amount	9,923,248	5,136,281	175,396	4,078,212	19,313,137
Less: Allowance for impairment losses	(713,426)	-	-	(886)	(714,312)
Less: Interest in suspense	(23,780)	-	-	-	(23,780)
Total Gross Amount	9,186,042	5,136,281	175,396	4,077,326	18,575,045

4. Financial risk management (continued)

a) Credit risk (continued)

Concentration of credit risk by geographic location:

2018	**Loans and advances gross AED'000**	**Investment securities AED'000**	**Derivative assets AED'000**	**Due from banks/ head office and branches abroad AED'000**	**Total on balance sheet AED'000**
Concentration by location					
UAE	**9,284,533**	**146,066**	**7,776**	**2,770,863**	**12,209,238**
GCC	**256,350**	**91,878**	**2,587**	**800,225**	**1,151,040**
Other Arab countries	**43,782**	**-**	**416**	**267,518**	**311,716**
Asia	**39,415**	**-**	**774**	**98,678**	**138,867**
Africa	**24,336**	**-**	**-**	**105,526**	**129,862**
USA	**1,326**	**4,898,337**	**10,395**	**2,561**	**4,912,619**
Europe	**84,713**	**-**	**153,448**	**32,510**	**270,671**
Others	**188,793**	**-**	**-**	**331**	**189,124**
	9,923,248	**5,136,281**	**175,396**	**4,078,212**	**19,313,137**
Less: Allowance for impairment losses	**(713,426)**	**-**	**-**	**(886)**	**(714,312)**
Less: Interest in suspense	**(23,780)**	**-**	**-**	**-**	**(23,780)**
Total Gross Amount	**9,186,042**	**5,136,281**	**175,396**	**4,077,326**	**18,575,045**

2017	Loans and advances gross	Investment securities	Derivatives assets	Due from banks/ head office and branches abroad	Total on balance sheet
Concentration by sector	AED'000	AED'000	AED'000	AED'000	AED'000
Commercial and business:-					
Agriculture & allied Activities	4,918				4,918
Mining & quarrying	28,363	-	-	-	28,363
Manufacturing	828,527	-	-	-	828,527
Electricity & water	92,401	-	-	-	92,401
Construction	12,742	-	-	-	12,742
Real estate	72,499	-	-	-	72,499
Trade	1,720,750	-	12,446	-	1,733,196
Transport & communication	374,690	-	-	-	374,690
Services	653,644	-	-	-	653,644
Total commercial and business	3,788,534	-	12,446	-	3,800,980
Financial institutions	972,120	-	244,763	2,871,136	4,088,019
Government and public sector entities	19,123	1,822,735	-	-	1,841,858
Consumer banking	5,301,681	-	-	-	5,301,681
Others	16,981	-	-	-	16,981
	10,098,439	1,822,735	257,209	2,871,136	15,049,519
Less: Allowance for impairment losses	(811,211)	-	-	-	(811,211)
Less: Interest in suspense	(21,929)	-	-	-	(21,929)
Total Gross Amount	9,265,299	1,822,735	257,209	2,871,136	14,216,379

4. Financial risk management (continued)

a) Credit risk (continued)

Concentration of credit risk by geographic location

2017	Loans and advances gross AED'000	Investment securities AED'000	Derivative assets AED'000	Due from banks/ head office and branches abroad AED'000	Total on balance sheet AED'000
Concentration by location					
UAE	9,238,635	177,971	1,904	1,919,609	11,338,119
GCC	345,639	93,373	26,049	711,637	1,176,698
Other Arab countries	54,798	-	-	11,045	65,843
Asia	42,626	-	98	83,165	125,889
Africa	5,461	-	180	10,127	15,768
USA	-	1,551,391	15,191	-	1,566,582
Europe	119,356	-	213,787	133,433	466,576
Others	291,924	-	-	2,120	294,044
	10,098,439	1,822,735	257,209	2,871,136	15,049,519
Less: Allowance for impairment losses	(811,211)	-	-	-	(811,211)
Less: Interest in suspense	(21,929)	-	-	-	(21,929)
Total Gross Amount	9,265,299	1,822,735	257,209	2,871,136	14,216,379

The concentrations by location are measured based on the country of domicile of the registered office of the entity.

Concentration of credit risk by currency:

2018	**Loans and advances gross AED'000**	**Investment securities AED'000**	**Derivative assets AED'000**	**Due from banks/ head office and branches abroad AED'000**	**Total on balance sheet AED'000**
Concentration by currency					
AED	**3,920,364**	**-**	**33**	**1,610,798**	**5,531,195**
Foreign currency	**6,002,884**	**5,136,281**	**175,363**	**2,467,414**	**13,781,942**
	9,923,248	**5,136,281**	**175,396**	**4,078,212**	**19,313,137**

4. Financial risk management (continued)

a) Credit risk (continued)

Concentration of credit risk by currency:

2017	Loans and advances gross AED'000	Investment securities AED'000	Derivative assets AED'000	Due from banks/ head office and branches abroad AED'000	Total on balance sheet AED'000
Concentration by currency					
AED	4,064,007	-	2,084	369,864	4,435,955
Foreign currency	6,034,432	1,822,735	255,125	2,501,272	10,613,564
	10,098,439	1,822,735	257,209	2,871,136	15,049,519

The above tables have been prepared in accordance with guidance received from the Central Bank of UAE. Majority of foreign currency exposures are in USD

b) Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honor its obligations to deliver cash, securities or other assets as contractually due. Any delays in settlement are rare and are monitored and quantified as part of the Bank's ICAAP framework and Operational Risk Management.

For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described above. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Bank's Risk Management Department.

c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It includes the risk of the inability to fund assets at appropriate maturities and rates and the inability to liquidate assets at reasonable prices and in an appropriate timeframe and inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

4. Financial risk management (continued)

c) Liquidity risk (continued)

Management of liquidity risk

Liquidity risk is managed by the Treasury department in line with the regulatory and internal policies and guidelines.

The Bank's approach to managing liquidity risk is to ensure that it has adequate funding from diversified sources at all times and that it can withstand any major shocks to its liquidity position. Funds are raised using a broad range of instruments including customer deposits, money market instruments and capital. Treasury department monitor the liquidity profile of financial assets and liabilities and the projected cash flows arising from existing and future business. Treasury maintains a portfolio of short-term liquid assets and inter-bank placements to ensure that sufficient liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and abnormal market conditions. The Bank's liquidity policy is set by the Management and is subject to annual review. Adherence to the policies is monitored by Risk Management Department and ALCO.

Exposure to liquidity risk

The key measures used by the Bank for measuring liquidity risk is advances to stable resources, which is a regulatory measure, ratio of net liquid assets, i.e., total assets by maturity against total liabilities by maturity and eligible liquid assets ratio, which requires the bank to hold an amount equivalent to 10% of its total balance sheet liabilities (excluding those included in regulatory capital) in high quality liquid assets.

4. Financial risk management (continued)

c) Liquidity risk (continued)

The contractual maturity profile of the assets and liabilities at 31 December 2018 and 2017 was as follows:

	Total AED'000	Less than 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 years AED'000	Over 5 years AED'000
Assets					
Cash and balances with Central Bank of UAE	**9,138,914**	**5,938,914**	**3,200,000**	-	-
Due from banks	**4,011,278**	**2,626,909**	**1,239,297**	**145,072**	-
Due from head office and branches abroad	**66,048**	**66,048**	-	-	-
Derivative assets	**175,396**	**41,277**	**61,675**	**72,444**	-
Loans and advances	**9,186,042**	**7,157,887**	**364,471**	**1,663,684**	-
Investment securities	**5,136,281**	**2,159,071**	**2,571,310**	**405,900**	-
Customer acceptances	**136,117**	**136,117**	-	-	-
Other assets	**584,132**	**584,111**	**21**	-	-
Total assets	**28,434,208**	**18,710,334**	**7,436,774**	**2,287,100**	-
Liabilities					
Due to banks	**124,986**	**124,986**	-	-	-
Customers' deposits	**20,526,048**	**20,428,666**	**97,382**	-	-
Derivative liabilities	**200,672**	**48,599**	**82,775**	**69,298**	-
Due to head office and branches abroad	**3,571,060**	**3,571,060**	-	-	-
Customer acceptances	**136,117**	**136,117**	-	-	-
Other liabilities	**959,779**	**944,009**	**2,298**	**13,472**	-
Total liabilities	**25,518,662**	**25,253,437**	**182,455**	**82,770**	-
Net on balance sheet liquidity gap 2018		**(6,543,103)**	**7,254,319**	**2,204,330**	-
At 31 December 2017					
Total assets	27,080,854	19,512,435	4,711,240	2,856,232	947
Total liabilities	24,331,169	23,870,707	296,506	161,034	2,922
Net on balance sheet liquidity gap 2017		(4,278,049)	3,873,360	3,156,349	(1,975)

4. Financial risk management (continued)

d) Market risk

Market Risk is the sensitivity of the market value of a portfolio to changes in financial asset prices such as: interest rates, foreign exchange rates, equity prices, and commodity prices. Market factors break down trading positions into specific sensitivities of price moves. Market risk arises in accrual portfolios (e.g., interest rate risk), as well as in mark-to-market portfolios.

Exposure to market risks – trading portfolios

Market Risk Factors
The variable (i.e. a market price or rate, such as a spot FX rate or an interest rate) that can impact the economic valuation of a market position. The primary market risk factors used to form limits include:

- *Equity risk*, the valuation risk resulting directly or indirectly from stock price changes.
- *Interest rate risk*, the valuation risk resulting from direct or indirect interest rate changes.
- *Currency risk*, the valuation risk resulting from direct or indirect currency price changes.
- *Commodity risk*, the valuation risk resulting from direct or indirect commodity price changes.

Within Independent Market Risk, there is a single set of standards for the measurement of market risk in order to ensure consistency across businesses, stability in methodologies, and transparency of risk. Critical measurement concepts associated with the measurement of market risk are outlined below:

Factor sensitivities

Factor sensitivities are used to measure an instrument's sensitivity to a change in value.

Volatility and correlation

The volatility of, and correlation between, market factors are used to calculate statistically-based portfolio risk measurements, such as VaR.

Value at Risk (VaR)

VaR estimates the potential decline in the value of a position or a portfolio, under normal market conditions, within a defined confidence level, and over a specific time period.

VaR is used to establish internal limits representing the maximum loss that a position might exhibit resulting from a one-day loss measured on a historical basis with a determined confidence level. VaR is also used for external regulatory reporting purposes.

The bank uses a single, independently approved Monte Carlo simulation VaR model, which has been designed to capture material risk sensitivities (such as first and second order sensitivities of positions to changes in market prices) of various asset classes/risk types. The bank's VaR includes positions which are measured at fair value; it does not include investment securities classified as fair value through other comprehensive income/available-for-sale or amortized cost/held-to-maturity.

4. Financial risk management (continued)

d) Market risk (continued)

The parameters used in a statistical simulation of market risk include:

- The historical 'look-back' period used to calculate historical volatilities and correlations;
- The holding period, i.e., the number of days of changes in market risk factors the portfolio is subjected to; and
- A confidence interval to estimate the potential loss, which for Citi's risk management purposes, is chosen to be 99%.

Limit framework

Market risk limits are intended to prevent excessive exposure to a single risk factor or group of related risk factors, as well as to constrain the general level of risk-taking for a business.

Excessive concentrations of market risk will in general be controlled through the use of limits on exposures to risk factors.

The limit framework may also include any of the following components:

Position Size/Notional	These can include limits on long, short and net inventory positions, notional limits on contractual positions, and portfolio concentration limits (e.g., industry, country).
Loss	These are thresholds on the cumulative decline in the value of a portfolio over a defined time period.
Issuer	This may include limits on the maximum permitted exposure to a single issuer name, as well as portfolio limits on issuer quality concentrations.
Permitted Product List	This is a list of authorized products and activities for each business.

The limit framework is made up of Tier 1, Tier 2, and Tier 3 limits:

Tier 1	These are generally the most significant factor limits for Citi overall, as well as limits on trading exposures in certain larger countries.
Tier 2	These are generally limits set at a product group level or in some cases at a desk, regional or legal entity level.
Tier 3	These are mainly desk-level limits

The Tier 1 and Tier 2 limit framework for all MTM portfolios must be monitored daily by staff that is independent of the business and using exposures reported in, or reconciled to, the independent market risk systems. Risk Reporting will monitor exposures against the Tier 3 limits and report breaches to the business and to Independent Market Risk Management.

4. Financial risk management (continued)

d) Market risk (continued)

Exposure to Interest rate risk – non trading portfolio

The assets, liabilities and capital associated with a Risk-Taking Unit, include:

- Loans at amortized cost (e.g. non-fair value option loans)
- Deposits
- Investments at fair value through other comprehensive income ("FVOCI") [(previously Available-for-Sale ("AFS")] securities

Key metrics for managing market risk in accrual portfolios include Interest Rate Exposure.

Interest Rate Exposure

Interest Rate Exposure measures the potential pre-tax impact on Net Interest Margin over a specified reporting period, for accrual positions, due to defined shifts in appropriate interest rates. Net Interest Margin ("NIM") is the difference between the yield earned on the accrual portfolio assets (including customer loans) and the rate paid on the liabilities (including customer deposits or company borrowings). NIM is affected by changes in the level of interest rates.

It is the responsibility of the Risk Taking Unit to ensure that the market risk in the accrual portfolio is measured and reported appropriately, that the appropriate asset, liability and capital positions are included in these measurements, and to document the business-specific assumptions underlying these measurements. The Independent Market Risk Manager and the appropriate ALCO must review any business-specific assumptions underlying the measurements of market risk for reasonableness and for consistency with the overall requirements. At a minimum, all Risk Taking Units have the limits and triggers on their accrual portfolio. Country ALCOs are responsible for reviewing aggregate country exposure reports, and for highlighting any issues with respect to levels of exposure.

Interest rate risk is also assessed by measuring the impact of defined movements in interest yield curves on the Bank's net interest income. The following impact on the net interest income for the year of an immediate and permanent movement in interest yield curves as at 31 December 2018.

Shift in Yield Curve	**2018** **Net interest income** **AED'000**	2017 Net interest income AED'000
+100 b.p.	**58,768**	57,299
-100 b.p.	**-60,972**	55,462

4. Financial risk management (continued)

d) Market risk (continued)

A summary of the Bank's interest rate gap position is as follows:

31 December 2018	Assets & liabilities not bearing interest rate risk	Less than 3 months	From 3 months to 1 year	Over 1 year but less than 5 years	Over 5 Years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with Central Bank of UAE	3,288,914	2,650,000	3,200,000	-	-	9,138,914
Due from banks	101,268	2,524,755	1,239,297	145,958	-	4,011,278
Due from HO and branches abroad	66,048	-	-	-	-	66,048
Derivative assets	175,396	-	-	-	-	175,396
Loans and advances	2,638,298	4,555,625	230,281	1,761,838	-	9,186,042
Investment securities	-	2,254,577	2,571,310	310,394	-	5,136,281
Customer acceptances	136,117	-	-	-	-	136,117
Other assets	584,132	-	-	-	-	584,132
	6,990,173	11,984,957	7,240,888	2,218,190	-	28,434,208
Due to banks	124,986	-	-	-	-	124,986
Customers' deposits	18,019,347	2,415,337	91,364	-	-	20,526,048
Derivative liabilities	200,672	-	-	-	-	200,672
Due to HO and branches abroad	3,571,060	-	-	-	-	3,571,060
Customers acceptances	136,117	-	-	-	-	136,117
Other liabilities	959,779	-	-	-	-	959,779
	23,011,961	2,415,337	91,364	-	-	25,518,662
Interest rate sensitivity gap		9,569,620	7,149,524	2,218,190	-	

4. Financial risk management (continued)

d) Market risk (continued)

31 December 2017	Assets & liabilities not bearing interest rate risk	Less than 3 months	From 3 months to 1 year	Over 1 year but less than 5 years	Over 5 Years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with Central Bank of UAE	3,199,788	6,136,514	2,600,000	-	-	11,936,302
Due from banks	624,597	2,045,306	163,774	-	-	2,833,677
Due from HO and branches abroad	37,459	-	-	-	-	37,459
Derivative assets	257,209	-	-	-	-	257,209
Loans and advances	3,069,430	5,532,711	389,160	273,998	-	9,265,299
Investment securities	642,557	183,591	725,014	271,573	-	1,822,735
Customer acceptances	323,910	-	-	-	-	323,910
Other assets	604,263	-	-	-	-	604,263
	8,759,213	13,898,122	3,877,948	545,571	-	27,080,854
Due to banks	74,162	-	-	-	-	74,162
Customers' deposits	11,959,406	9,408,924	231,615	893	-	21,600,838
Derivative liabilities	242,325	-	-	-	-	242,325
Due to HO and branches abroad	1,141,551	-	-	-	-	1,141,551
Customers acceptances	323,910	-	-	-	-	323,910
Other liabilities	948,383	-	-	-	-	948,383
	14,689,737	9,408,924	231,615	893	-	24,331,169
Interest rate sensitivity gap		5,122,125	3,104,959	1,005,829	-	

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 21,444 million (2017: AED 18,322 million) interest bearing assets and AED 6,990 million (2017: AED 9,641 million) interest bearing liabilities with interest re-pricing less than one year, for assessing the impact on net profit. The impact on equity includes the impact on net profit and the interest rate sensitivity on the investments held at fair value through other comprehensive income (previously available for sale investments) portfolio. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates, and arises from financial instruments denominated in a foreign currency. The Management has set limits on positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. At 31 December, the Bank had the following significant net exposures denominated in foreign currencies:

4. Financial risk management (continued)

d) Market risk (continued)

	Net spot position AED'000	Forward position AED'000	Net exposure 2018 AED'000	2017 AED'000
Currency				
US Dollar	**995,391**	**(952,154)**	**43,237**	(49,863)
Great Britain Pound	**(195,983)**	**195,980**	**(3)**	(1,049)
Japanese Yen	**140**	**(32)**	**108**	(95)
Euro	**(632,880)**	**645,419**	**12,539**	1,471
Swiss Francs	**51,313**	**(51,014)**	**299**	194
Saudi Riyals	**202**	**(369,479)**	**(369,277)**	(118,602)
Kuwaiti Dinar	**(67,706)**	**(1,496)**	**(69,202)**	(35,166)
Bahraini Dinar	**(24,019)**	**(55,461)**	**(79,480)**	(34,605)
Others	**(159,468)**	**251,836**	**92,368**	47,203

As the UAE Dirham and other GCC currencies are pegged to the US Dollar, balances in US Dollar and other GCC currencies are not considered to represent significant currency risk.

e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate governance.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is of the senior management of the Bank, which is further assigned to the heads of individual units, departments or branches. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

4. Financial risk management (continued)

e) Operational risks (continued)

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation, including insurance where this is effective
- Whistle Blowing and Incident Reporting Policies.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Bank's Internal Audit (IA) team. The results of these reviews are submitted to the senior management of the Bank.

f) Capital management

Regulatory capital

The Bank's lead regulator, the Central Bank of UAE, sets and monitors regulatory capital requirements.

The Bank's objectives when managing capital are as follows:

- Safeguard the Bank's ability to continue as a going concern and increase returns for shareholders; and
- Comply with regulatory capital requirements set by the Central Bank of UAE.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank's regulatory capital adequacy ratio is set by the Central Bank of UAE ('the Central Bank'). The Bank has complied with all externally imposed capital requirements throughout the period. The Central Bank has advised that the capital adequacy ratio should be increased to 12.35% analyzed into two Tiers, of which Tier 1 capital adequacy must not be less than 8.5%.

The Bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings; and
- Tier 2 capital, which includes fair value reserves relating to unrealized gains/losses on investments classified as FVOCI (previously available-for-sale) and derivatives held as cash flow hedges, general provision and subordinated term loans. The following limits have been applied for Tier 2 capital:
    - General provision shall not exceed 1.25% of credit risk weighted assets ("CRWA").

4. Financial risk management (continued)

f) Capital management (continued)

Regulatory capital (continued)

The table below summarizes the composition of regulatory capital of the Bank as per Basel III:

	2018 AED'000	2017 AED'000
Tier 1 capital		
Share capital	**135,901**	135,901
Statutory reserve	**67,951**	67,951
Fair value reserve	**(14,461)**	(13,088)
Retained earnings	**2,185,994**	2,185,993
Tier 1 Capital	**2,375,385**	2,389,845
Upper tier 2 capital		
Collective provisions (1.25% of the CRWA)	**167,707**	159,284
Tier 2 capital	**167,707**	146,196
Total capital base (a)	**2,543,092**	2,536,041
Risk weighted assets (RWA) Pillar 1		
Credit risk	**13,416,522**	12,742,748
Market risk	**243,037**	177,122
Operational risk	**3,099,227**	2,986,575
Risk weighted assets (b)	**16,758,786**	15,906,445
Capital adequacy ratio (Pillar 1) (c)	**15.17%**	15.94%
Tier 1 ratio	**14.17%**	15.02%

Capital allocation

The allocation of capital is generally driven by optimization of the return achieved on the capital allocated. The Bank also internally assesses its capital requirements taking into consideration growth requirements and business plans, and quantifies its Regulatory as well a Risk/Economic Capital requirements. The Bank has complied with the capital requirements of the Central Bank of UAE throughout the year. There have been no material changes in the Bank's management of capital during the year. The Pillar III quantitative disclosures under the Basel II capital framework will be made available upon request.

5. Financial assets and liabilities

(a) Financial assets and liabilities classification

The table below sets out the Bank's classification of each class of financial assets and liabilities:

	Financial Assets at FVPL AED'000	Financial assets at amortised cost AED'000	Financial Assets at FV through OCI AED'000	Carrying amount AED'000
2018				
Financial Assets				
Cash and balances with Central Bank	-	9,138,914	-	9,138,914
Due from banks	-	4,011,278	-	4,011,278
Due from head office and branches abroa(	-	66,048	-	66,048
Derivative assets	175,396	-	-	175,396
Loans and advances	-	9,186,042	-	9,186,042
Investment securities	3,956,176	-	1,180,105	5,136,281
Customer acceptances	-	136,117	-	136,117
Other assets	-	346,099	-	346,099
	4,131,572	22,884,498	1,180,105	28,196,175
Financial Liabilities				
Due to banks	-	124,986	-	124,986
Customers' deposits	-	20,526,048	-	20,526,048
Derivative liabilities	200,672	-	-	200,672
Due to head office and branches abroad	-	3,571,060	-	3,571,060
Customer acceptances	-	136,117	-	136,117
Other liabilities	-	959,779	-	959,779
	200,672	25,317,990	-	25,518,662

5. Financial assets and liabilities (continued)

(a) Financial assets and liabilities classification (continued)

	Financial Assets at FVPL AED'000	Financial assets at amortised cost AED'000	Financial Assets at FV through OCI AED'000	Carrying amount AED'000
2017				
Financial Assets				
Cash and balances with Central Bank	-	11,936,302	-	11,936,302
Due from banks	-	2,833,677	-	2,833,677
Due from head office and branches abroad	-	37,459	-	37,459
Derivative assets	257,209	-	-	257,209
Loans and advances	-	9,265,299	-	9,265,299
Investment securities	642,525	-	1,180,210	1,822,735
Customer acceptances	-	323,910	-	323,910
Other assets	-	334,183	-	334,183
	899,734	24,730,830	1,180,210	26,810,774
Financial Liabilities				
Due to banks	-	74,162	-	74,162
Customers' deposits	-	21,600,838	-	21,600,838
Derivative liabilities	242,325	-	-	242,325
Due to head office and branches abroad	-	1,141,551	-	1,141,551
Customer acceptances	-	323,910	-	323,910
Other liabilities	-	948,343	-	948,343
	242,325	24,088,804	-	24,331,129

Management estimates that carrying values are a reasonable representation of fair values of the financial assets and liabilities.

(b) Fair value measurement - Fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

5. Financial assets and liabilities (continued)

(b) Fair value measurement - Fair value hierarchy (continued)

2018	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**
Assets			
Investment securities	**5,136,281**	**-**	**-**
Derivative assets	**-**	**175,396**	**-**
	5,136,281	**175,396**	**-**
Liabilities			
Derivative liabilities	**-**	**200,672**	**-**
	-	**200,672**	**-**
2017			
Assets			
Investment securities	1,822,735	-	-
Derivative assets	-	257,209	-
	1,822,735	257,209	-
Liabilities			
Derivative liabilities	-	242,325	-
	-	242,325	-

During the year, there were no transfers between Level 1, 2 and 3 of the fair value hierarchy above. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments during the year.

(c) Financial instruments not measured at fair value

In respect of financial assets and financial liabilities measured at amortized cost the management estimates that carrying values are a reasonable representation of fair values. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments during the year.

6. Cash and balances with the Central Bank of UAE

	2018 AED'000	2017 AED'000
Cash in hand	**75,308**	91,639
Reserve with the Central Bank of UAE	**3,156,924**	3,195,483
Certificate of deposit of the Central Bank of UAE	**5,850,000**	7,750,000
Current account with the Central Bank of UAE	**56,682**	899,180
	9,138,914	11,936,302

7. Due from banks

	2018 AED'000	2017 AED'000
Balances with other banks	**101,659**	102,831
Export finance discounted (without recourse)	**68,328**	241,648
Placements	**275,498**	-
Own acceptances discounted	**177,201**	487,627
Term loans	**148,339**	526,863
Import finance discounted	**2,543,239**	740,128
Islamic financing- Murabaha	**697,900**	734,580
	4,012,164	2,833,677
Less: Expected credit loss (Note 28)	**(886)**	-
	4,011,278	2,833,677

8. Loans and advances to customers

The composition of the loans and advances portfolio is as follows:

	2018 AED'000	2017 AED'000
Term loans	**2,493,652**	2,612,148
Islamic financing- Murabaha	**176,050**	121,780
Credit card advances	**2,386,072**	2,234,274
Overdraft	**3,615,035**	3,616,769
Others	**1,252,439**	1,513,468
	9,923,248	10,098,439
Less: Expected credit loss	**(713,426)**	(811,211)
Less: Interest in suspense	**(23,780)**	(21,929)
Net loans and advances	**9,186,042**	9,265,299

8. Loans and advances to customers (continued)

The movements of impairment for loans and advances to customers excluding interest in suspense are as follows:

2018	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
At 1 January 2018	**145,560**	**246,563**	**419,088**	**811,211**
Net reversal of provision for the year (Note 28)	**(24,199)**	**(40,991)**	**(32,595)**	**(97,785)**
Balance as at 31 December 2018	**121,361**	**205,572**	**386,493**	**713,426**

2017	Collective AED'000	Specific AED'000	Total AED'000
At 1 January 2017	338,435	378,541	716,976
Charge of provision for the year (Note 28)	53,688	40,547	94,235
Balance as at 31 December 2017	392,123	419,088	811,211

9. Investment securities

	2018 AED'000	2017 AED'000
At fair value through OCI (previously available for sale)		
Government bonds (AA rated)	**1,180,105**	1,180,210
At fair value through profit or loss		
Government bonds (AA rated)	**3,956,176**	642,525
Total	**5,136,281**	1,822,735

Movement during the year were as follows:

	2018 AED'000	2017 AED'000
At 1 January	**1,822,735**	2,866,969
Additions during the year	**48,757,010**	38,607,103
Disposed during the year	**(45,443,442)**	(39,648,072)
Change in fair value of investment *	**(22)**	(3,265)
Total	**5,136,281**	1,822,735

At 31 December 2018 AED 310 million (2017: AED 828 million) of investment securities are expected to mature more than 12 months after the reporting date.

* During the year ended 31 December 2018, change in fair value of investment securities comprised of AED 1.37 million decline in fair value of investment securities held at FVOCI and a gain in fair value of AED 1.35 million on investment securities held at FVTPL.

10. Property and equipment

	Furniture, equipment and motor vehicles AED'000	Computer systems AED'000	Capital work in progress AED'000	Total AED'000
Cost				
At 1 January 2017	101,721	122,932	3,729	228,382
Additions	14,635	762	5,464	20,861
At 31 December 2017	116,356	123,694	9,193	249,243
At 1 January 2018	**116,356**	**123,694**	**9,193**	**249,243**
Additions	**92,112**	**7,146**	**-**	**99,258**
Disposals/transfers	**(49,425)**	**-**	**(4,367)**	**(53,792)**
At 31 December 2018	**159,043**	**130,840**	**4,826**	**294,709**
Accumulated depreciation				
At 1 January 2017	84,848	62,534	-	147,382
Charge for the year	20,147	8,823	-	28,970
At 31 December 2017	104,995	71,357	-	176,352
At 1 January 2018	**104,995**	**71,357**	**-**	**176,352**
Charge for the year	**23,375**	**2,500**	**-**	**25,875**
Disposals/transfer	**(48,431)**	**-**	**-**	**(48,431)**
At 31 December 2018	**79,939**	**73,857**	**-**	**153,796**
Net book value				
At 31 December 2018	**79,104**	**56,983**	**4,826**	**140,913**
At 31 December 2017	11,361	52,337	9,193	72,891

11. Other assets

	2018 AED'000	2017 AED'000
Accrued interest receivable	**149,450**	116,515
Prepayments and other receivables	**238,033**	270,080
Deferred tax assets (note 19)	**196,649**	217,668
	584,132	604,263

12. Due to banks

	2018 AED'000	2017 AED'000
Balances with other banks	**124,986**	74,162

13. Customers' deposits

	2018 AED'000	2017 AED'000
Current and demand accounts	**17,637,232**	17,754,888
Savings accounts	**1,872,069**	1,884,265
Time deposits	**543,268**	1,167,749
Islamic deposits- Qard	**91,364**	322,918
Others	**382,115**	471,018
	20,526,048	21,600,838

14. Other liabilities

	2018 AED'000	2017 AED'000
Accrued interest payable	**2,802**	1,751
Unamortized insurance fee	**21,035**	22,864
Employees' terminal benefits	**67,086**	73,117
Provision for taxation (note 19)	**160,453**	141,689
Clearing account	**359,323**	467,382
Other provisions and accruals	**330,896**	241,580
Provision for expected credit loss on financial guarantees, letter of credit and customer acceptance (Note 28)	**10,715**	-
VAT payable	**7,469**	-
	959,779	948,383

	2018 AED'000	2017 AED'000
Reconciliation of payable to/(receivable from) defined benefit plan		
Present value of defined benefit obligation	**67,630**	73,117

14. Other liabilities (continued)

	2018 AED'000	2017 AED'000
Opening net liability	**73,117**	68,940
Expense during the year	**13,178**	13,726
Re-measurement of post-employment benefits obligation	**(2,811)**	(2,806)
ESB transfer from Bahrain	**-**	748
Benefit paid during the year	**(16,398)**	(7,491)
Closing net liability	**67,086**	73,117
Charge for the defined benefit plan		
Current service cost	**10,023**	10,761
Interest cost	**3,155**	2,965
	13,178	13,726
Actuarial assumption		
Valuation on discount rate	**4.50%**	4.50%
Salary increase rate	**4.50%**	4.50%

15. Allocated capital

In accordance with the UAE Federal Law No (2) of 2015 and Articles of Association of the Bank, the allocated capital represents the deposit of AED 135.90 million contributed by Head Office as assigned capital for the UAE branches.

16.1 Legal reserve

In accordance with the UAE Federal Law No (2) of 2015 and Articles of Association of the Bank, 10% of the Bank's net profit for the year is transferred to a legal reserve, until such time as the balance in the reserve equals 50% of the issued share capital. Since the legal reserve of the Bank is equal to 50% of Bank's issued capital, profit was not appropriated to legal reserve during the year. This reserve is not available for distribution.

16.2 Other reserve

	2018 AED'000	2017 AED'000
Re-measurement of post-employment benefits	**(2,674)**	(5,485)
Net charge from Citigroup Inc. – share based incentives	**15,294**	11,941
	12,620	6,456

17. Fees and commission income - net

	2018 **AED'000**	2017 AED'000
Commission on sale of third party investment products	**78,517**	85,862
Operations fees and service charges	**54,560**	58,821
Commission on trade finance	**66,544**	68,626
Others fees and commission	**356,541**	350,371
	556,162	563,680

18. General and administrative expenses

	2018 **AED'000**	2017 AED'000
Staff costs	**373,567**	406,695
Head office administration, supervision and other costs	**563,292**	517,797
Depreciation	**25,875**	28,970
Other	**9,705**	-
	972,439	953,462

Staff costs include share-based payments as below:

	2018 **AED'000**	2017 AED'000
Capital Accumulation Program (CAP) expenses	**10,055**	13,012
Stock option expenses	**195**	86
	10,250	13,098

The Bank participates in the Citigroup Inc. ("Citigroup") share-based incentive plans under which Citigroup offers share options and/or deferred stock to the Bank's employees. The fair value of share-based incentive awards is determined at the time of grant and is expensed over the vesting period.

At 31 December 2018, total number of employees was 651 (2017: 542).

There were no social contributions made during the year (2017: none).

19. Taxation

Tax is computed at 20% on the net taxable profits of the Branches in each Emirate i.e. in Dubai, Abu Dhabi and Sharjah.

The tax laws do not permit adjustment of a tax loss incurred in one Emirate with a tax profit of another Emirate. Therefore, the tax expense for the Branches has been computed on profits earned in the Emirates of Dubai, Abu Dhabi and Sharjah separately.

	2018 AED'000	2017 AED'000
Movement in current tax provision		
Balance at 1 January	**141,689**	128,236
Tax paid	**(141,689)**	(128,411)
Current tax expense for the year	**160,453**	141,864
Balance at 31 December	**160,453**	141,689
Current tax expense		
Current year	**160,453**	141,689
Adjustment for prior years	**-**	175
	160,453	141,864
Deferred tax credit		
Origination and reversal of temporary differences	**21,020**	(25,117)
Total income tax expense	**181,473**	116,747

The following is the reconciliation between income taxes calculated on accounting profits at the applicable tax rates with the income tax expense for the year:

	2018 AED'000	2017 AED'000
Accounting profit	**849,927**	556,111
Tax at the applicable rate of 20%	**169,985**	111,222
Adjustments:		
Other tax adjustments	**11,488**	5,525
Tax expense	**181,473**	116,747
Effective Tax rate	**21.35%**	20.99%

19. Taxation (continued)

The following is the movement in deferred tax asset during the year:

2018	**At 1 January 2018 AED'000**	**Charge to profit/(credit) AED'000**	**Charge to other comprehensive income AED'000**	**At 31 December 2018 AED'000**
Impairment provision on loans and advances to customers	**217,668**	**(21,019)**	**-**	**196,649**
Total	**217,668**	**(21,019)**	**-**	**196,649**

2017	At 1 January 2017 AED'000	Charge to profit/(credit) AED'000	Charge to other comprehensive income AED'000	At 31 December 2017 AED'000
Impairment provision on loans and advances to customers	192,551	25,117	-	217,668
Total	192,551	25,117	-	217,668

20. Contingent liabilities and commitments

At any time, the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to two years. Expirations are not concentrated in any period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

	2018 AED'000	2017 AED'000
Letters of credit	**642,589**	1,118,656
Guarantees	**4,404,274**	4,210,329
Undrawn loan commitments	**2,983,437**	2,097,102
	8,030,300	7,426,087

20. Contingent liabilities and commitments (continued)

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 AED'000	2017 AED'000
Less than one year	**12,642**	11,494
Between one and five years	**23,394**	18,544
	36,036	30,038

The Bank leases a number of branch and office premises under operating leases. These leases typically run for a period of five years, with an option to renew the lease after that date.

Customer acceptances

Acceptances are recognized on balance sheet with a corresponding liability. Accordingly, there is no off balance commitment for acceptances.

21. Cash and cash equivalents

	2018 AED'000	2017 AED'000
Cash and balances with Central Bank of UAE (excluding reserves)	**5,981,990**	6,140,818
Due from banks	**2,626,909**	1,592,056
Due from head office and branches abroad	**66,048**	37,459
Due to banks	**(124,986)**	(74,162)
Due to head office and branches abroad	**(3,571,060)**	(1,141,551)
	4,978,901	6,554,620

22. Derivatives

			Notional Amounts				
31 December 2018	**Positive fair market value AED'000**	**Negative fair market value AED'000**	**Less than 3 months AED'000**	**From 3 months to 1 year AED'000**	**From 1 year to 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
Derivatives held for trading							
Foreign exchange forwards contracts	**163,991**	**189,686**	**40,298,580**	**18,559,160**	**9,113,861**	**-**	**67,971,601**
Foreign exchange options	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate swaps	**11,405**	**10,986**	**1,195,071**	**984,444**	**1,374,549**	**-**	**3,554,064**
Cross currency swaps	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**175,396**	**200,672**	**41,493,651**	**19,543,604**	**10,488,410**	**-**	**71,525,665**

22. Derivatives (continued)

31 December 2017	Positive fair market value AED'000	Negative fair market value AED'000	Notional Amounts: Less than 3 months AED'000	From 3 months to 1 year AED'000	From 1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
Derivatives held for trading							
Foreign exchange forwards contracts	222,665	211,184	30,450,517	21,365,118	8,388,394	-	60,204,029
Foreign exchange options	-	-	-	-	-	-	-
Interest rate swaps	34,544	31,141	533,477	7,381,480	3,109,171	-	11,024,128
Cross currency swaps	-	-	-	-	-	-	-
Total	257,209	242,325	30,983,994	28,746,598	11,497,565	-	71,228,157

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of an underlying financial instrument, reference rate or index. Derivative financial instruments include forwards, futures, swaps and options. Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealized gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealized gains) are included in derivative assets and derivatives with negative market values (unrealized losses) are included in derivative liabilities on the statement of financial position.

23. Related party transactions

Banking transactions are carried out on normal commercial terms with other branches and fellow subsidiaries in the Citigroup.

The year-end balances in respect of related parties are disclosed as due from/to head office and branches abroad.

	2018 AED'000	2017 AED'000
Due from head office and branches abroad	**66,048**	37,459
Due to head office and branches abroad	**(3,571,060)**	(1,141,551)
Derivative assets	**175,396**	221,946
Derivative liabilities	**(200,672)**	(224,303)

23. Related party transactions (continued)

The statement of profit or loss for the year includes transactions with related parties as follows:

	2018 AED'000	2017 AED'000
Interest income	**738**	8,603
Interest expense	**(11,686)**	(6,395)
Head office administration and supervision	**(106,056)**	(70,067)
Net intercompany service charges	**(184,822)**	(190,592)
Net Fx and other income	**214,498**	129,437
Off balance sheet		
- Guarantees	**235,045**	235,045
- Letters of credit	**711,026**	666,929
Key management personnel		
- Short term benefits	**11,603**	11,199
- Share based benefits	**1,921**	1,531
- Employee end of service benefits	**422**	388
	13,946	13,118

Transactions with key management personnel:

Key management personnel have transacted with the Bank during the year as follows:

	2018 AED'000		2017 AED'000	
	Maximum balance	**Closing balance**	Maximum balance	Closing balance
Loans	**250**	**241**	508	380
Credit cards	**512**	**200**	389	153

24. Interest income

	2018 AED'000	2017 AED'000
Placement with banks	**154,140**	100,094
Loans and advances to customers	**929,737**	789,386
Investments	**42,636**	12,786
	1,126,513	902,266

25. Interest expense

	2018 AED'000	2017 AED'000
Customer deposits	**64,197**	52,883
Borrowings	**11,735**	8,729
	75,932	61,612

26. Other operating income - net

	2018 AED'000	2017 AED'000
Foreign exchange income	**421,461**	386,611
Other gains	**5,236**	15,850
	426,697	402,461

27. Islamic loan, deposit and income

	2018 AED'000	2017 AED'000
Islamic financing- Murabaha	**176,050**	121,780
Islamic deposits- Quard	**91,364**	322,918
Income from Islamic financing	**9,473**	6,804
	276,887	451,502

28. Impairment losses

The charge to profit or loss for impairment losses consists of the following:

	2018 AED'000	2017 AED'000
Net expected credit loss (reversal)/charge of provision for loans and advances (Note 8)	**(97,785)**	94,235
Expected credit loss charge for due from banks (Note 7)	**886**	-
Expected credit loss for expected credit loss on financial guarantees, letter of credit and customer acceptance (Note 14)	**10,715**	-
Loans and advances directly written off	**300,179**	251,742
Recoveries of loans and advances previously written off	**-**	(41,494)
	213,995	304,483

29. Comparative figures

No items have been reclassified in the statement of financial position for the prior year ended 31 December 2018.