Citibank N.A. -
United Arab Emirates Branches

Report and Financial statements
For the year ended 31 December 2021

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 2021

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Independent auditors' report

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

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 2021, the statement of profit or loss, statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021, and its financial performance and its cash flows 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (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.

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 their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended), 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 Bank's 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's financial reporting process.

Auditors' 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 auditors' 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 Bank's 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

— 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 those charged with governance 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.

Report on Other Legal and Regulatory Requirements

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

KPMG Lower Gulf Limited

Fawzi AbuRass
Registration No.: 968
Dubai, United Arab Emirates

Date: 31 MAR 2022

Citibank N.A. - United Arab Emirates Branches

Statement of financial position

As at 31 December 2021

	Note	**2021 AED'000**	2020 AED'000
ASSETS			
Cash and balances with the Central Bank of UAE	*6*	**12,420,508**	7,319,581
Due from banks	*7*	**3,101,192**	2,775,277
Due from head office and branches abroad	*23*	**619,223**	123,307
Derivative assets	*22*	**75,920**	395,690
Loans and advances to customers	*8*	**8,279,954**	7,869,545
Investment securities	*9*	**12,451,457**	12,988,583
Property and equipment	*10*	**125,138**	142,542
Customer acceptances	*20*	**402,295**	177,779
Other assets	*11*	**705,457**	696,982
Total assets		**38,181,144**	32,489,286
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	*12*	**188,014**	169,067
Customers' deposits	*13*	**30,148,380**	25,589,183
Due to head office and branches abroad	*23*	**3,466,233**	2,364,526
Derivative liabilities	*22*	**220,933**	387,548
Customer acceptances	*20*	**402,295**	177,779
Other liabilities	*14*	**1,047,716**	1,021,921
Total liabilities		**35,473,571**	29,710,024
EQUITY			
Allocated capital	*15*	**135,901**	135,901
Legal reserve	*16.1*	**67,951**	67,951
Fair value reserve		**(36,744)**	15,030
Other reserves	*16.2*	**(6,179)**	(7,715)
Retained earnings		**2,546,644**	2,568,095
Total equity		**2,707,573**	2,779,262
Total liabilities and equity		**38,181,144**	32,489,286

The attached notes 1 to 30 form an integral part of these financial statements.

These financial statements were approved on 31 March 2022 by

Chief Executive Officer

Chief Financial Officer

Ediz Ozsoy
Citibank UAE, Country CFO

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 2021

	Note	2021 AED'000	2020 AED'000
Interest income	*24*	**693,158**	915,483
Interest expense	*25*	**(40,734)**	(54,905)
Net interest income		**652,424**	860,578
Income from Islamic financing	*27*	**5,633**	8,836
Net interest and Islamic financing income		**658,057**	869,414
Fees and commission income – net	*17*	**408,652**	412,176
Other operating income – net	*26*	**357,362**	310,595
Net gain on investments		**15,289**	101,415
Total income		**1,439,360**	1,693,600
General and administrative expenses	*18*	**(911,323)**	(861,194)
Impairment losses, net	*28*	**(38,341)**	(353,721)
Profit for the year before taxation		**489,696**	478,685
Taxation	*19*	**(129,046)**	(96,584)
Profit for the year		**360,650**	382,101

The attached notes 1 to 30 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 2021

	2021 AED'000	2020 AED'000
Profit for the year	**360,650**	382,101
Other comprehensive income:		
Items that will never be reclassified to profit or loss		
Re-measurement of post-employment benefits	**3,537**	(12,474)
Net charge from Citigroup Inc. - share based incentives	**(2,001)**	(1,991)
	1,536	(14,465)
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	**(36,744)**	15,030
Net amount transferred to profit and loss on debt investments classified as fair value through comprehensive income	**(15,030)**	(4,212)
	(51,774)	10,818
Other comprehensive loss for the year	**(50,238)**	(3,647)
Total comprehensive income for the year	**310,412**	378,454

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Citibank N.A. - United Arab Emirates Branches

Statement of changes in equity

for the year ended 31 December 2021

	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 2020	135,901	67,951	4,212	6,750	2,904,883	3,119,697
Total comprehensive income						
Profit for the year	-	-	-	-	382,101	382,101
Other comprehensive income, net of tax	-	-	10,818	-	-	10,818
Share based payment transactions	-	-	-	(1,991)	-	(1,991)
Measurement of post-employment benefits	-	-	-	(12,474)	-	(12,474)
Repatriation of funds to head office	-	-	-	-	(718,889)	(718,889)
At 31 December 2020	135,901	67,951	15,030	(7,715)	2,568,095	2,779,262
At 1 January 2021	**135,901**	**67,951**	**15,030**	**(7,715)**	**2,568,095**	**2,779,262**
Total comprehensive income						
Profit for the year	-	-	-	-	**360,650**	**360,650**
Other comprehensive income, net of tax	-	-	**(51,774)**	-	-	**(51,774)**
Share based payment transactions	-	-	-	**(2,001)**	-	**(2,001)**
Measurement of post-employment benefits	-	-	-	**3,537**	-	**3,537**
Repatriation of funds to head office	-	-	-	-	**(382,101)**	**(382,101)**
At 31 December 2021	**135,901**	**67,951**	**(36,744)**	**(6,179)**	**2,546,644**	**2,707,573**

The attached notes 1 to 30 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 2021

	2021	2020
	AED'000	AED'000
Cash flow from operating activities		
Profit for the year before tax	**489,696**	478,685
Adjustment for non-cash items:		
Depreciation	**38,243**	35,524
Loss on sale of property and equipment	**2,937**	68
Net charge on financial assets	**(209,866)**	140,294
Derivatives	**153,155**	10,530
Net gain on investments	**15,288**	(101,415)
End of service benefit	**3,537**	13,846
Operating cash before changes in operating assets and liabilities	**492,990**	577,532
Decrease in reserve with the Central Bank of UAE	**(132,167)**	860,902
Decrease in due from Banks	**(99,888)**	97,582
Decrease/(increase) in loans and advances to customers	**(225,169)**	1,217,025
Decrease/(increase) in other assets excluding taxation	**(49,537)**	101,106
Increase in customer deposits	**4,559,197**	4,821,045
(Decrease)/increase in other liabilities excluding taxation	**68,316**	(61,371)
Taxes paid	**(131,016)**	(182,791)
End of service benefit paid	**(8,001)**	(2,906)
Net cash flows generated from operating activities	**4,474,725**	7,428,124
Cash flow from investing activities		
Purchase of property and equipment- net	**(24,648)**	(46,476)
Proceeds from disposal of property and equipment	**872**	20,839
Purchase of investments	**(12,507,117)**	(30,513,867)
Proceeds from sale of investments	**13,007,757**	25,213,307
Net cash flows from/(used) in investing activities	**476,864**	(5,326,197)
Cash flow from financing activities		
Repatriation of profits to Head office	**(382,101)**	(718,889)
Net cash flows used in financing activities	**(382,101)**	(718,889)
Increase in cash and cash equivalents	**4,569,488**	1,383,038
Cash and cash equivalents at the beginning of the year	**4,643,901**	3,260,863
Cash and cash equivalents at the end of the year (Note 21)	**9,213,389**	4,643,901

The attached notes 1 to 30 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 (2020: 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.

These financials reflect the activities of the Branches in the United Arab Emirates only and exclude all transactions, assets and liabilities of the head office and its other branches elsewhere. Since the capital of the Bank is not publicly traded, no segment analysis has been prepared.

2. Basis of preparation

a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) issued by the International Accounting Standards Board (IASB), and applicable requirements of the United Arab Emirates Laws.

The Bank is required, for the year ended 31 December 2021, to be in compliance with the provisions of the UAE Federal Law No. 2 of 2015, as amended. On 20 September 2021, the UAE Federal Decree Law No. 32 of 2021 was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. 2 of 2015 (as amended). The Bank has 12 months from 2 January 2022 to comply with the provisions of the UAE Federal Decree Law No 32 of 2021.

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;
- financial instruments at fair value through other comprehensive income 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.

2. Basis of preparation (continued)

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 recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Information about significant areas of estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 3.

e) Relevant New and revised IFRSs applied on the financial statements

The following new and revised IFRS have been adopted in the Bank's financial statements. The application of these new and revised IFRS has not had any material impact on the amounts reported for the current and prior periods.

	Effective for annual periods beginning on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to phase 2 of interest rate benchmark reforms	1 January 2021

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2021.

Interest Rate Benchmark Reform

Interbank offered rates ("IBORs"), such as the London Interbank Offered Rate ("LIBOR"), plays a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments.

Uncertainty surrounding the integrity of IBOR rates has in recent years led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates ("RFRs") and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

The majority of LIBOR and other Interbank Offer Rates ("IBORs") are expected to be discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates ("ARRs"), with the exception of certain USD LIBOR rates were cessation may be delayed until 30 June 2023. The transition away from the IBORs covers most of the business units and support functions of the Bank. The Bank's management is in the process of assessing the impact.

2. Basis of preparation (continued)

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

Interest Rate Benchmark Reform (continued)

Further to the above, "On 27 August 2020, the IASB issued Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (the "amendments"). The amendments introduce a practical expedient to account for a change in the basis for determining the contractual cash flows of financial instruments that are impacted by interest rate benchmark reform ("IBOR reform"). Under the practical expedient, the Bank will not derecognise or adjust the carrying amount of financial instruments for modifications required by IBOR reform, but will instead update the effective interest rate to reflect the change in the interest rate benchmark. The practical expedient will be applied when the modification is required as a direct consequence of IBOR reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis. The impact of the replacement of interbank offered rates ('IBORs') with alternative risk-free rates on the Bank's products and services remains a key area of focus. The Bank has exposure to contracts referencing IBORs, such as LIBOR, extending past 2021 when it is likely that these will cease being published.

Managing interest rate benchmark reform and associated risks

For decades, LIBOR and other rates or indices deemed to be benchmarks have been widely used across financial products and markets globally. These benchmarks have been the subject of ongoing national and international regulatory scrutiny and reform, resulting in regulators generally expecting or requiring banks, including the Bank, to cease entering into new contracts that reference USD LIBOR as a benchmark by December 31, 2021. The LIBOR administrator ceased publication of non-USD LIBOR and one week and two-month USD LIBOR on a representative basis on December 31, 2021, with plans to cease publication of all other USD LIBOR tenors on June 30, 2023. As a result, Bank ceased entering into new contracts referencing USD LIBOR as of January 1, 2022, other than for limited purposes as permitted by regulatory guidance and the Bank has been in compliance with this expectation.

In addition, the Bank has established a LIBOR governance and implementation program focused on identifying and addressing the impact of LIBOR transition on the Bank's clients, operational capabilities and financial contracts. The program operates globally across the Bank's businesses and functions and includes active involvement of senior management, oversight by the Bank's Asset & Liability Committee and reporting to the Risk Management Committee of Citigroup's Board of Directors. As part of the program, the Bank has continued to implement its LIBOR transition action plans and associated roadmaps under the following key workstreams: program management; transition strategy and risk management; customer management, including internal communications and training, legal/contract management and product management; financial exposures and risk management; regulatory and industry engagement; operations and technology; and finance, risk, tax and treasury.

During 2021, the Bank continued to participate in a number of working groups formed by global regulators, including the Alternative Reference Rates Committee (ARRC) convened by the Federal Reserve Board.
In 2021, the Bank has been focused on remediating existing LIBOR contracts for which publication ceased on a representative basis on December 31, 2021. Substantially all of these contracts have been remediated by December 31, 2021, and the Bank continues to actively engage in and track the remediation of any remaining contracts after December 31, 2021. In addition, a significant majority of the notional amount of the Bank's derivatives exposures include fallback provisions referencing alternative reference rates as a result of adherence to the (IBOR) Fallbacks Protocol. For LIBOR contracts that have not yet been remediated, The Bank has also been reviewing the effect of relevant legislative solutions, which are expected to facilitate the transition to replacement rates.

2. Basis of preparation (continued)

f) New and revised IFRSs in issue but not yet effective

The Bank has not applied the following new and revised IFRS amendments and interpretations that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to IAS 16 Property, plant and equipment relating to proceeds before intended use	1 January 2022
Amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets relating to onerous contracts	1 January 2022
Annual improvements to IFRS standards 2018 - 2020 1 January 2022	1 January 2022
Amendments to IAS 8 Accounting policies, Changes in accounting estimates and errors	1 January 2023
Amendments to IAS 1 Presentation of Financial Statements relating to classification of Liabilities as Current or Non-Current	1 January 2023

Management anticipates that these IFRS and amendments will be adopted in the financial statements in the initial period when they become mandatorily effective. The impact of these standards and amendments are currently being assessed by the management.

3. Significant accounting policies

The Bank has consistently applied the following accounting policies to all periods presented in the financial statements, except for the accounting standards mentioned in note 2e which are applied for the first time.

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 instruments are taken to statement of 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.

3. Significant accounting policies (continued)

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.

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 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..

3. Significant accounting policies (continued)

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

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.

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 affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Branches are able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

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.

3. Significant accounting policies (continued)

f) Taxation (continued)

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.

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 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. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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 fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized over time as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized over time on a straight-line basis over the commitment period. In case of these services, the control is considered to be transferred over time as the customer is benefited from these services over the tenure of the service period. Other fee and commission expense relate mainly to transaction the services are received.

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) Lease

At inception of a contract the Company assesses whether a contract is or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative standalone prices. However, for the leases of office premises the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

2. Significant accounting policies (continued)

k) Lease (continued)

As a lessee (continued)

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank are reasonably certain to exercise, lease payments in an optional renewal period if the Bank are reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank are reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in other assets and lease liabilities in other liabilities in the statement of financial position.

3. Significant accounting policies (continued)

k) Lease (continued)

As a lessee (continued)

Short-term leases and leases of low-value assets
The Bank has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Bank has elected to apply the expedient allowed by IFRS 16 on its general requirements to short-term leases (i.e., one that does not include a purchase option and has a lease term at commencement date of 12 months or less) and leases of low value assets. For this the Bank recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term or another systematic basis if that basis is representative of the pattern of the lessee's benefits, similar to the current accounting for operating leases.

l) Financial Instruments

Recognition and initial measurement

The Bank initially recognises loans and advances, and deposits on the date on which they are originated. All other financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Branches become a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

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.

On initial recognition of an equity investment that is not held for trading, the Branches may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Classification and measurement:

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

(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).

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.

3. Significant accounting policies (continued)

l) Financial Instruments (continued)

Financial Assets and Financial Liabilities (continued)

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.

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.

3. Significant accounting policies (continued)

l) Financial Instruments (continued)

ii) Financial Assets – Debt Instruments (continued)

Derecognition

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as FVOCI is not recognized in profit or loss account on derecognition of such securities, and is routed directly through equity to retained earnings.

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

Business Model Assessment

The Bank's business model is determined at a level that reflects how groups 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)

l) Financial Instruments (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 FVOCl 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 derecognized and a new financial asset is recognized 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 recognise 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 recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

3. Significant accounting policies (continued)

l) Financial Instruments (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;
- 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.

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.

3. Significant accounting policies (continued)

l) Financial Instruments (continued)

Expected credit loss impairment model (continued)

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.

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 credit quality deterioration (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 credit quality deterioration 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.

3. Significant accounting policies (continued)

l) Financial Instruments (continued)

Staging (continued)

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 recognized 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 recognized 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.

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.

3. Significant accounting policies (continued)

l) Financial Instruments (continued)

Expected life (continued)

Stage 3 definition of default (continued)

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

The Bank 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) department. 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.

As part of the year-end ECL estimation process, given the unique nature of the conditions created by COVID-19, the Bank has re-calibrated their macro-economic inputs using local data to factor in risks associated with this uncertainty.

In order to ensure the unprecedented events of 2020/2021 are captured in the year-end ECL estimation process and to help management make an informed estimate, a number of key factors not fully captured by the ECL estimation process were considered:

- Elevated levels of economic volatility arising from countries repeatedly entering and exiting lockdowns, uncertainty over vaccine availability and efficacy against new strains.
- Lagged nature of economic data availability combined with high levels of economic volatility can result in newly produced forward looking scenarios quickly becoming dated.
- Governments support measures have included furlough schemes, statutory loan moratoria, government-guaranteed loans and direct grants. These supports have acted to reduce or delay the impact of the pandemic on economies but also resulted in significant increases in government national debt levels. The nature of COVID shock and ongoing policy responses are expected to lead to a lengthening of the emergence period versus original model design.

3. Significant accounting policies (continued)

l) Financial Instruments (continued)

Expected life (continued)

The COVID-19 pandemic has severely impacted global health, financial markets, consumer and business spending, and economic conditions in all of the jurisdictions where Citi operates. The extent of the future pandemic impacts remains uncertain but may include, among other impacts, disruption of the global supply chain, higher inflation or interest rates, financial market volatility, increase in credit costs for Citi, and public health impacts. The pandemic may continue to have negative impacts on Citi's businesses and overall results of operations and financial condition.

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 and the fact that their credit rating is AA, no loss allowance is recognized 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).

IFRS 9 requires that the reserve calculation should incorporate forward-looking information in relation to future macroeconomic scenarios. As such, Bank 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)

m) key judgments in applying the Bank's accounting policies

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognized 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 derecognized 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

The following are key estimations that the management has used in the process of applying the Branches' accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario: When measuring ECL the Branches uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

- Establishing groups of assets with similar credit risk characteristics.

3. Significant accounting policies (continued)

m) key judgments in applying the Bank's accounting policies (continued)

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.

- Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. Three economic scenarios are formulated: a base case, which is the central scenario, developed internally based on consensus forecasts, and two less likely scenarios, one upside and one downside scenario.

The central scenario is aligned with information used by the Bank for other purposes such as strategic planning and budgeting.

The scenarios are prepared by the Economic Forecast Team and the external information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasts.

Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the senior management.

In developing its IFRS 9 forecasting models, key drivers are identified such as credit risk and credit losses based on the sector, product and geography characteristics attaching to each financial instrument and using an analysis of historical data has estimated relationships between the identified macro-economic drivers and credit risk and credit losses. The key drivers include GDP growth, unemployment rates, equity indices and commodity prices. The Bank estimates each economic driver for credit risk over the forecast period followed by a reversion to a long run economic average.

3. Significant accounting policies (continued)

m) key judgments in applying the Bank's accounting policies (continued)

- Incorporation of forward-looking information (continued)

The assumptions represent the absolute percentage unemployment rates and year-on-year percentage change for GDP.

The scenarios are refreshed on a quarterly basis to include both up to date actual data and to reflect changes in outlook. Given the scope of Bank's business activity, the quarterly scenarios produced for ECL calculation are global in nature, and as such are designed to reflect the impact of significant economic events such as Brexit and Covid 19. The probability weightings applied in measuring ECL are also reviewed quarterly and are shown below for the current and previous year-ends.

	at 31 December 2021			at 31 December 2020		
Scenario	Optimistic	Base	Pessimistic	Optimistic	Base	Pessimistic
Probability weight	15.00%	55.00%	30.00%	24.38%	50.81%	24.81%

n) 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.

o) 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.

3. Significant accounting policies (continued)

o) Fair value measurement principles (continued)

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

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.

p) 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 – 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.

3. Significant accounting policies (continued)

p) Islamic financing and investing contracts (continued)

Definition (continued)

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.

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.

3. Significant accounting policies (continued)

q) Modification of financial assets and liabilities

Financial Assets

If the terms of a financial asset are modified, the Bank evaluate 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, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purpose, including for the purpose of determining whether a significant increase in credit risk has occurred.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset based on the revised cash flows of the financial assets and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as income.

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 the statement of profit or loss.

r) Acceptances:

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due.

After acceptance, the instrument becomes an unconditional liability (time draft) of the Branches and is therefore recognized as a financial liability in the statement of financial position with a corresponding contractual right of reimbursement from the customer recognized as a financial asset.

Acceptances have been considered within the scope of IFRS 9 - Financial Instruments and continued to be recognized as a financial liability in the statement of financial position with a contractual right of reimbursement from the customer as a financial asset.

s) Impairment of non-financial assets

The carrying amounts of the branches non-financial assets, other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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 documented
- 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)

	2021			
	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	**2,823,985**	**493,674**	**-**	**3,317,659**
Grades 1 to 7: Watch list	**-**	**-**	**-**	**-**
Grade 7: Substandard	**-**	**-**	**-**	**-**
Grade 10: Doubtful/Loss	**-**	**-**	**248,207**	**248,207**
Total gross carrying amount corporate loans	**2,823,985**	**493,674**	**248,207**	**3,565,866**
Consumer loans	**5,089,814**	**165,256**	**51,260**	**5,306,330**
Due from banks	**3,101,809**	**-**	-	**3,101,809**
Due from head office and other branches	**619,223**	**-**	-	**619,223**
Customer acceptances	**402,295**	**-**	-	**402,295**
Loan commitments, financial guarantees and letters of credit	**4,319,402**	**387,665**	**93,285**	**5,800,352**
Total gross amount	**17,356,529**	**1,046,595**	**392,752**	**18,795,875**
Less: Expected credit loss	**(141,417)**	**(162,040)**	**(278,930)**	**(582,387)**
Less: Interest in suspense	**-**	**-**	**(19,109)**	**(19,109)**
Net carrying amount	**17,215,112**	**884,555**	**94,713**	**18,194,379**

4. Financial risk management (continued)

a) Credit risk (continued)

Exposure to credit risk (continued)

	2020			
	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	3,621,951	197,666	-	3,819,617
Grades 1 to 7: Watch list	-	-	22	22
Grade 7: Substandard	-	-	3,295	3,295
Grade 10: Doubtful/Loss	-	-	247,196	247,196
Total gross carrying amount corporate loans	3,621,951	197,666	250,513	4,070,130
Consumer loans	4,227,488	254,079	108,960	4,590,527
Due from banks	2,750,250	26,208	-	2,776,458
Due from head office and other branches	123,307	-	-	123,307
Customer acceptances	154,759	23,020	-	177,779
Loan commitments, financial guarantees and letters of credit	5,479,189	868,291	14,769	6,362,249
Total gross amount	16,356,944	1,369,264	374,242	18,100,450
Less: Expected credit loss	(204,891)	(267,890)	(319,473)	(792,254)
Less: Interest in suspense	-	-	(32,739)	(32,739)
Net carrying amount	16,152,053	1,101,374	22,030	17,275,457

<u>Expected credit loss allowance</u>

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

	1 January 2021 AED 000	**Net (reversal) during the year AED 000**	**31 December 2021 AED 000**
Due from banks	**1,181**	**(564)**	**617**
Loans and advances to customers	**758,373**	**(185,240)**	**573,133**
Total on balance sheet	**759,554**	**(185,804)**	**573,750**
Loan commitments, financial guarantees and letters of credit	**32,700**	**(24,062)**	**8,638**
Total off balance sheet	**32,700**	**(24,062)**	**8,638**
Total expected credit loss allowance	**792,254**	**(209,866)**	**582,388**

4. Financial risk management (continued)

a) Credit risk (continued)

Exposure to credit risk (continued)

Expected credit loss allowance (continued)

	1 January 2020 AED'000	Net charge during the year AED'000	31 December 2020 AED'000
Due from banks	886	295	1,181
Loans and advances to customers	710,038	48,335	758,373
Total on balance sheet	710,924	48,630	759,554
Loan commitments, financial guarantees and letters of credit	8,654	24,046	32,700
Total off-balance sheet	8,654	24,046	32,700
Total expected credit loss allowance	719,578	72,676	792,254

	Investment Securities		**Derivative Assets**	
	2021 AED'000	2020 AED'000	**2021 AED'000**	2020 AED'000
Grades 1 to 7: Current	**12,451,457**	12,988,583	**75,920**	395,690
Carrying amount	**12,451,457**	12,988,583	**75,920**	395,690

ECL for the above has been assessed to be immaterial as all investments in bonds are AA rated.

Expected credit loss allowance

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 31 December 2020 and 31 December 2021 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.

4. Financial risk management (continued)

a) Credit risk (continued)

Exposure to 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 monthly 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	
	2021	2020
	AED'000	AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
7,251,798		
Balance with CBUAE	**12,331,570**	7,251,798
Due from banks	**3,101,809**	2,776,459
Due from head office and branches abroad	**619,223**	123,307
Derivatives	**75,920**	395,690
Loans and advances to customers	**8,872,196**	8,660,657
Investment securities	**12,451,457**	12,988,583
Customer acceptances	**402,295**	177,779
Credit risk exposures relating to off-balance sheet items are as follows:		
Loan commitments and other off balance sheet items	**5,800,352**	6,362,249
	43,654,822	38,736,522

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2021 and 2020 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.

4. Financial risk management (continued)

a) Credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

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

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

	Collaterals	
	2021	2020
	AED'000	AED'000
Individually impaired		
Pledged deposits	**551**	551
Property	**7,600**	7,600
Gross amount	**8,151**	8,151
Neither past due nor impaired		
Pledged deposits	**317,766**	239,945
Investment securities	**2,466,113**	1,875,417
Guarantees	**638,465**	760,193
Property	**28,975**	13,305
Total	**3,459,470**	2,897,011

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 2021 or 2020.

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.

Internal relief program during COVID-19

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread globally, causing disruptions to businesses and economic activity. In response, governments and central banks have launched economic support and relief measures (including payment deferrals) to minimize the impact on individuals and corporates.

4. Financial risk management (continued)

a) Credit risk (continued)

Internal relief program during COVID-19 (continued)

In determination of year end ECL, the Bank has considered potential impact caused by Covid-19 pandemic (based upon available information) and taken into account economic support and relief measures of governments and central banks. The Bank has also considered the notices issued by the Central Bank of UAE with regards to the 'Targeted Economic Support Scheme (TESS)' and 'Treatment of IFRS 9 Expected Credit Loss in the context of Covid-19 crisis' as well as the guidance issued by the International Accounting Standards Board (IASB).

The Bank has not applied for the Targeted Economic Support Scheme offered by Central Bank of UAE and have rolled out its own internal relief program upon client request.

For retail customers, the bank offered as emergency relief program for Cards and Loans, the possibility for customers to skip/defer payments up to 3 months with the option to renew the offer for another 3 months. The customers were able to enroll into the program starting March 2020 and only renewals for max another 3 months were allowed from September 2020 onwards.

The internal relief program is available for both consumer and corporate clients. During the year ended 31 December 2020, there were a total of 6,601 consumer accounts and 10 corporate clients who had availed the Bank's internal relief program.

As of 31 December 2020, all corporate clients have repaid their outstanding balance subjected to deferment under the internal relief program. There are no new client who had requested relief since October 2020.

Significant Increase in Credit Risk (SICR) under COVID-19

Under IFRS 9, loans are required to be moved from Stage 1 to Stage 2 if and only if they have been the subject of SICR since origination. SICR occurs when there has been a significant increase in risk of default.

The Bank continues to assess borrowers for other factors that might indicate inability to pay, taking into consideration the underlying causes of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or long term.

The Bank believes that the extension of payment reliefs does not automatically trigger SICR where the impact on customer's business is expected to be short term. For all other customers, the Bank continues to consider severity and extent of potential Covid-19 impact on the respective economic sectors, future outlook, cash flows, financial strength, agility and change in risk profile along with an assessment of their historical record in determining SICR.

The accounting impact of the extension / restructuring of credit facilities due to Covid-19 has been assessed and has been treated as per the requirements of IFRS 9 for modification of terms of arrangement.

4. Financial risk management (continued)

a) Credit risk (continued)

Internal relief program during COVID-19 (continued)

Forward Looking Information

Retail

In light of the volatile market the output of a macro-sensitive modelling approach in a dynamic macroeconomic environment was deemed suitable to compute the forward-looking loss. This is in accordance with the Joint Guidance where banks and finance companies were expected to re-introduce macroeconomic scenarios in ECL. The forward-looking losses incorporate the stress in the macro economic scenario.

Considering the introduction of the emergency relief programs, the staging rules have been modified as per the Central Bank regulations. As per the disclosure requirements of the Central Bank of UAE in the context of Covid-19, for the UAE operations, Retail division has divided its customers benefitting from payment deferrals into two groups (Group 1 and Group 2). For customers not expected to face substantial changes in their creditworthiness, beyond liquidity issues caused by the Covid-19 crisis, staging may be retained at the same level and categorized in Group 1. Customers expected to be significantly impacted by Covid-19 in the long term and that are expected to face substantial deterioration in their creditworthiness have been migrated to Stage 2 and categorized in Group 2.

Accordingly, all accounts booked under the deferral program that are self-employed or employed in "Airlines / Tourism / Hospitality" sector are classified as Group 2 and remain at minimum in Stage 2. All other accounts under the relief program are classified as Group 1 and their staging will remain under same stage as the one at the moment of enrollment into the deferral program.

Analysis of customers benefiting from payment deferrals

As of 31 December 2021, the deferral amount and outstanding of UAE customers is nil.

The table below contains analysis of the deferral amount and outstanding balances of UAE customers benefiting from deferrals during the year:

AED 000	**Corporate customers**	**Retail* customers**	**Total**
For the year ended 31 December 2020			
Deferral Amount	11,882	36,005	47,887
Less: Repayments made during the year	(11,882)	(9,632)	(21,514)
	-	26,373	26,373
Exposure related to approved deferrals	32,066	253,600	285,666
Number of customers/Accounts	10	6,601	-

* The deferral amount for retail customers pertains to the expected monthly installments over the deferred period for personal loans while the deferral amount for cards is equivalent to the current minimum amount due including past due amount at the relief program enrolment date.

4. Financial risk management (continued)

a) Credit risk (continued)

Internal relief program during COVID-19 (continued)

Analysis of customers benefiting from payment deferrals (continued)

The repayment amount reflected above is taken as per below:

- Loans (months post account maturity till Dec'21 x EMI) – only a few loans had maturity in 2021, hence the repaid amount is extremely low, as expected
- Cards (Payments post Enrolment) – as cards could pay even during the deferral period, payments since program enrolment have been considered.

As per the requirements of the Central Bank of UAE, the Bank have divided its customers benefitting from payment deferrals into two groups as follows:

Group 1: Clients are not expected to face substantial changes in their creditworthiness, beyond liquidity issues, caused by the Covid-19 crisis.

Group 2. Across the world governments have mandated that all citizens should cancel all non-essential travel at the current time. The hotel, leisure, retail and travel industries have been hit particularly hard. In UAE, tourism accounts for more than 11% of GDP. Hotel closures and reduced staffing for hospitality and airline industry has affected customers employed in this segment significantly. There is further medium to long term impact expected for these economic sector as the virus threat remains high in absence of a vaccine. In UAE, Emirates airlines have been significantly impacted by more than 90% of flights being suspended between April to June and the forecast is of partial gradual route opening until end of year. Another high risk segment is the self-employed, as these individuals are usually not having short term cashflow to withstand consecutive months of suspended activity. All accounts booked under the deferral program that are self-employed or employed in "Airlines / Tourism / Hospitality" sector are under Group 2, all other accounts under the deferral program which are not under these industry sectors are under Group 1.

The impact of Covid-19 crisis continues to filter through into the real economy. In view of this, the Branches have taken a proactive approach and on an ongoing basis for all customers, the Bank continues to consider the severity and extent of potential Covid-19 impact on economic sectors and outlook, cash flow, financial strength, agility and change in risk profile along with the past track record and ongoing adaptation. Accordingly, all staging and grouping decisions are subject to regular review to ensure these reflect an accurate view of the Bank's assessment of the customers' creditworthiness, staging and grouping as of the reporting date.

4. Financial risk management (continued)

a) Credit risk (continued)

Internal relief program during COVID-19 (continued)

Outstanding balances and related ECL of UAE customers

As of 31 December 2021, the deferral amount and outstanding of UAE customers and related ECL is nil.

The table below is an analysis of outstanding balances and related ECL of UAE customers that are benefiting from payment deferrals:

AED 000	**Corporate customers**	**Retail customers**	**Total**
31 December 2020			
Group 1			
Exposures	**-**	**189,495**	**189,495**
Less: Expected credit losses	**-**	**(46,506)**	**(46,506)**
	-	**142,963**	**142,963**
Group 2			
Exposures	**-**	**64,405**	**64,405**
Less: Expected credit losses	**-**	**(58,724)**	**(58,724)**
	-	**5,381**	**5,381**

Stage migrations of UAE customers

Below is an analysis of Stage migrations since 1 January 2021 of UAE customers benefiting from payment deferrals:

AED 000	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
Retail customers				
EAD as at 1 January 2020	245,968	25,110	63	271,141
Transferred from 12-month ECL	(72,846)	62,916	9,930	-
Transferred from Lifetime ECL not credit-impaired	544	(1,367)	823	-
Transferred from Lifetime ECL credit-impaired	-	63	(63)	-
Other movements – net	(21,399)	(491)	4,349	(17,541)
EAD as at 31 December 2020	152,267	86,231	15,102	253,600

4. Financial risk management (continued)

a) Credit risk (continued)

Internal relief program during COVID-19 (continued)

Change in ECL allowance by industry sector for retail customers

Below is an analysis of change in ECL allowance by industry sector since 1 January 2021 on retail benefiting from payment deferrals:

AED 000	**AED 000**
ECL allowance as at 1 January 2020	28,366
Self-employed or Employed in “Airlines / Tourism / Hospitality” sector.	52,047
All others except Self-employed or Employed in “Airlines / Tourism / Hospitality” sector.	24,817
ECL allowance as at 31 December 2020	105,230

Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, having 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.

2021 ***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	**-**	**-**	**-**	**-**	**-**
Mining & quarrying	**47,489**	**-**	**-**	**-**	**47,489**
Manufacturing	**995,951**	**-**	**58**	**-**	**996,009**
Electricity & water	**80,453**	**-**	**-**	**-**	**80,453**
Construction	**254,961**	**-**	**-**	**-**	**254,961**
Real estate	**3**	**-**	**-**	**-**	**3**
Trade	**876,715**	**-**	**509**	**-**	**877,224**
Transport & communication	**708,181**	**-**	**139**	**-**	**708,320**
Services	**387,375**	**-**	**114**	**-**	**387,489**
Total commercial and business	**3,351,128**	**-**	**820**	**-**	**3,351,948**
Financial institutions	**71,766**	**-**	**75,100**	**3,721,032**	**3,867,898**
Government and public sector entities	**135,246**	**12,451,457**	**-**	**-**	**12,586,703**
Consumer banking	**5,308,735**	**-**	**-**	**-**	**5,308,735**
Others	**5,321**	**-**	**-**	**-**	**5,321**
Total gross amount	**8,872,196**	**12,451,457**	**75,920**	**3,721,032**	**25,120,605**
Less: Allowance for impairment losses	**(573,133)**	**-**	**-**	**(617)**	**(573,750)**
Less: Interest in suspense	**(19,109)**	**-**	**-**	**-**	**(19,109)**
Total net amount	**8,279,954**	**12,451,457**	**75,920**	**3,720,415**	**24,527,746**

4. Financial risk management (continued)

a) Credit risk (continued)

Concentration (continued)

Concentration of credit risk by geographic location:

2021	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	**8,187,958**	**292,732**	**(2,586)**	**2,656,455**	**11,134,559**
GCC	**193,707**	**52**	**23,151**	**305,912**	**522,822**
Other Arab countries	**10,505**	**-**	**-**	**29,316**	**39,821**
Asia	**37,049**	**-**	**-**	**427,293**	**464,342**
Africa	**(31)**	**-**	**-**	**23,968**	**23,937**
USA	**3,372**	**12,171,327**	**-**	**22,115**	**12,196,814**
Europe	**108,778**	**(12,654)**	**55,355**	**255,959**	**407,438**
Others	**330,858**	**-**	**-**	**14**	**330,872**
	8,872,196	**12,451,457**	**75,920**	**3,721,032**	**25,120,605**
Total Gross amount					
Less: Allowance for impairment losses	**(573,133)**	**-**	**-**	**(617)**	**(573,750)**
Less: Interest in suspense	**(19,109)**	**-**	**-**	**-**	**(19,109)**
Total net amount	**8,279,954**	**12,451,457**	**75,920**	**3,720,415**	**24,527,746**

4. Financial risk management (continued)

a) Credit risk (continued)

Concentration (continued)

Concentration by sector

2020 ***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	-	-	-	-	-
Mining & quarrying	281,872	-	-	-	281,872
Manufacturing	1,062,898	-	259	-	1,063,157
Electricity & water	76,016	-	-	-	76,016
Construction	226,413	-	-	-	226,413
Trade	1	-	-	-	1
Transport & communication	1,151,337	-	4	-	1,151,341
Services	616,771	-	-	-	616,771
	353,191	-	67	-	353,258
Total commercial and business	3,768,499	-	330	-	3,768,829
Financial institutions	136,605	-	395,360	2,899,765	3,431,730
Government and public sector entities	159,189	12,988,583	-	-	13,147,772
Consumer banking	4,590,527	-	-	-	4,590,527
Others	5,837	-	-	-	5,837
Total gross amount	8,660,657	12,988,583	395,690	2,899,765	24,944,695
Less: Allowance for impairment losses	(758,373)	-	-	(1,181)	(759,554)
Less: Interest in suspense	(32,739)	-	-	-	(32,739)
Total net amount	7,869,545	12,988,583	395,690	2,898,584	24,152,402

4. Financial risk management (continued)

a) Credit risk (continued)

Concentration (continued)

Concentration of credit risk by geographic location (continued)

2020	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	7,731,725	502,838	14,345	1,885,658	10,134,566
GCC	116,687	52	24,218	755,408	896,365
Other Arab countries	22,366	-	-	32,965	55,331
Asia	27,330	-	1,251	129,451	158,032
Africa	3,670	-	-	34,554	38,224
USA	1,261	12,485,693	13,631	2,731	12,503,316
Europe	356,910	-	342,245	48,410	747,565
Others	400,708	-	-	10,588	411,296
	8,660,657	12,988,583	395,690	2,899,765	24,944,695
Less: Allowance for impairment losses	(758,373)	-	-	(1,181)	(759,554)
Less: Interest in suspense	(32,739)	-	-	-	(32,739)
Total Gross amount	7,869,545	12,988,583	395,690	2,898,584	24,152,402

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:

2021	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	**3,796,149**	**-**	**511**	**1,471,212**	**5,267,872**
Foreign currency	**5,076,047**	**12,451,457**	**75,409**	**2,249,820**	**19,852,733**
	8,872,196	**12,451,457**	**75,920**	**3,721,032**	**25,120,605**

4. Financial risk management (continued)

a) Credit risk (continued)

Concentration (continued)

Concentration of credit risk by currency (continued):

2020	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	3,559,296	38	967	1,276,554	4,836,855
Foreign currency	5,101,361	12,988,545	394,723	1,623,211	20,107,840
	8,660,657	12,988,583	395,690	2,899,765	24,944,695

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.

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.

4. Financial risk management (continued)

c) Liquidity risk (continued)

Management of liquidity risk (continued)

COVID 19 crises has also affected liquidity in global and regional markets. The Central Bank of UAE has proactively addressed the concern considering its pervasive impact on the overall economy by providing Zero Cost Funding to all eligible banks (the Bank has not availed this during the year) and easing out regulatory cash reserve requirements for banks. In order to pass on benefits of liquidity support measures to customers, the CBUAE reduced the liquidity ratios (LCR and ELAR) minimum threshold by 30%.

The Bank's ALCO has been meeting on a regular basis with particular focus on liquidity management. The Bank has proactively considered exploring new options for expanding its liabilities base (changed tenors and currency). The Bank is strengthening its liquidity buffers by timing disbursements to customers along with strict focus on enhancing deposit relationships across all customer segments.

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.

The contractual maturity profile of the financial assets and liabilities at 31 December 2021 and 2020 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	**12,420,508**	**4,711,726**	**7,708,782**	**-**	**-**
Due from banks	**3,101,192**	**1,960,059**	**908,507**	**232,626**	**-**
Due from head office and branches abroad	**619,223**	**619,223**	**-**	**-**	
Derivative assets	**75,920**	**75,920**	**-**	**-**	
Loans and advances	**8,279,954**	**4,556,675**	**686,187**	**1,044,516**	**1,992,576**
Investment securities	**12,451,457**	**5,839,793**	**2,937,192**	**3,674,472**	**-**
Customer acceptances	**402,295**	**132,230**	**266,977**	**3,088**	**-**
Other assets	**705,457**	**705,457**	**-**	**-**	**-**
Total assets	**38,056,006**	**18,601,083**	**12,507,645**	**4,954,702**	**1,992,576**
Liabilities					
Due to banks	**188,014**	**188,012**	**2**	**-**	**-**
Customers' deposits	**30,148,380**	**30,111,706**	**17,946**	**4,240**	**14,488**
Derivative liabilities	**220,933**	**220,933**	**-**	**-**	**-**
Due to head office and branches abroad	**3,466,233**	**3,466,233**	**-**	**-**	**-**
Customer acceptances	**402,295**	**132,230**	**266,977**	**3,088**	**-**
Other liabilities	**1,047,716**	**1,047,716**	**-**	**-**	**-**
Total liabilities	**35,473,571**	**35,166,830**	**284,925**	**7,328**	**14,488**
Net on balance sheet liquidity gap 2021		**(16,565,747)**	**12,222,720**	**4,947,374**	**1,978,088**

4. Financial risk management (continued)

c) Liquidity risk (continued)

Management of liquidity risk (continued)

Exposure to liquidity risk (continued)

Assets	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
Cash and balances with Central Bank of UAE	7,319,581	7,319,581	-	-	-
Due from banks	2,775,277	1,734,594	765,245	275,438	-
Due from head office and branches abroad	123,307	123,307	-	-	-
Derivative assets	395,690	74,666	253,584	67,440	-
Loans and advances	7,869,545	5,174,671	711,855	1,867,364	115,655
Investment securities	12,988,583	-	12,592,638	395,945	-
Customer acceptances	177,779	149,836	27,943	-	-
Other assets	696,982	696,982	-	-	-
Total assets	32,346,744	15,273,637	14,351,265	2,606,187	115,655
Liabilities					
Due to banks	169,067	169,065	2	-	-
Customers' deposits	25,589,183	25,483,555	95,222	10,406	-
Derivative liabilities	387,548	66,607	241,917	79,024	-
Due to head office and branches abroad	2,364,526	2,364,526	-	-	-
Customer acceptances	177,779	149,836	27,943	-	-
Other liabilities	1,021,921	1,021,921	-	-	-
Total liabilities	29,710,024	29,255,510	365,084	89,430	-
Net on balance sheet liquidity gap 2021		(13,981,873)	13,986,181	2,516,757	115,655

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.

4. Financial risk management (continued)

d) Market risk (continued)

Exposure to market risks – trading portfolios (continued)

Market Risk Factors (continued)

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 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.

4. Financial risk management (continued)

d) Market risk (continued)

Limit Framework (continued)

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.

No sensitivity analysis was disclosed on price risk as the impact of investments held at fair value through profit or loss is immaterial.

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")

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.

4. Financial risk management (continued)

d) Market risk (continued)

Interest Rate Exposure (continued)

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 2021

Shift in Yield Curve	**2021 Net interest income AED'000**	2020 Net interest income AED'000
+100 b.p.	**21,617**	27,833
-100 b.p.	**(20,307)**	(6,399)

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

31 December 2021	**Assets & liabilities not bearing interest rate risk AED'000**	**Less than 3 months AED'000**	**From 3 months to 1 year AED'000**	**Over 1 year but less than 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
Cash and balances with Central Bank of UAE	**4,711,726**	**-**	**7,708,782**	**-**	**-**	**12,420,508**
Due from banks	**486,848**	**2,002,415**	**612,547**	**-**	**-**	**3,101,810**
Due from HO and branches abroad	**619,223**	**-**	**-**	**-**	**-**	**619,223**
Derivative assets	**75,920**	**-**	**-**	**-**	**-**	**75,920**
Loans and advances	**888,630**	**6,321,119**	**508,544**	**561,661**		**8,279,954**
Investment securities	**-**	**5,839,909**	**4,722,261**	**1,710,021**	**179,266**	**12,451,457**
Customer acceptances	**402,295**	**-**	**-**	**-**	**-**	**402,295**
Other assets	**705,459**	**-**	**-**	**-**	**-**	**705,459**
	7,890,101	**14,163,443**	**13,552,134**	**2,271,682**	**179,266**	**38,056,626**
Due to banks	**-**	**188,014**	**-**	**-**	**-**	**188,014**
Customers' deposits	**24,791,283**	**5,253,766**	**90,946**	**12,385**	**-**	**30,148,380**
Derivative liabilities	**220,933**	**-**	**-**	**-**	**-**	**220,933**
Due to HO and branches abroad	**3,466,233**	**-**	**-**	**-**	**-**	**3,466,233**
Customers acceptances	**402,295**	**-**	**-**	**-**	**-**	**402,295**
Other liabilities	**1,047,716**	**-**	**-**	**-**	**-**	**1,047,716**
	29,928,462	**5,441,780**	**90,946**	**12,385**	**-**	**35,473,573**
Interest rate sensitivity gap		**8,721,663**	**13,461,188**	**2,259,297**	**179,266**	

4. Financial risk management (continued)

d) Market risk (continued)

Interest Rate Exposure (continued)

31 December 2020	Assets & liabilities not bearing interest rate risk AED'000	Less than 3 months AED'000	From 3 months to 1 year AED'000	Over 1 year but less than 5 years AED'000	Over 5 years AED'000	Total AED'000
Cash and balances with Central Bank of UAE	2,069,581	5,250,000	-	-	-	7,319,581
Due from banks	102,065	1,633,228	764,782	275,202	-	2,775,277
Due from HO and branches abroad	123,307	-	-	-	-	123,307
Derivative assets	395,690	-	-	-	-	395,690
Loans and advances	2,858,936	4,742,649	66,696	201,264	-	7,869,545
Investment securities	-	-	12,592,638	395,945	-	12,988,583
Customer acceptances	177,779	-	-	-	-	177,779
Other assets	696,982	-	-	-	-	696,982
	6,424,340	11,625,877	13,424,116	872,411	-	32,346,744
Due to banks	-	169,027	40	-	-	169,067
Customers' deposits	21,924,831	3,577,670	75,264	11,418	-	25,589,183
Derivative liabilities	387,548	-	-	-	-	387,548
Due to HO and branches abroad	2,364,526	-	-	-	-	2,364,526
Customers acceptances	177,779	-	-	-	-	177,779
Other liabilities	1,021,921	-	-	-	-	,1,021,921
	25,876,605	3,746,697	75,304	11,418	-	29,710,024
Interest rate sensitivity gap		7,879,180	13,348,812	860,993	-	

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 27,551 million (2020: AED 25,922 million) interest bearing assets and AED 5,545 million (2020: AED 3,833 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 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. As at 31 December, the Bank had the following significant net exposures denominated in foreign currencies:

4. Financial risk management (continued)

d) Market risk (continued)

Currency risk (continued)

	Net spot position AED'000	Forward position AED'000	Net exposure 2021 AED'000	Net exposure 2020 AED'000
Currency				
US Dollar	**(261,743)**	**(227,831)**	**(489,574)**	695,241
Great Britain Pound	**(424,665)**	**415,163**	**(9,502)**	(1,413)
Japanese Yen	**(47,933)**	**47,786**	**(147)**	(61)
Euro	**(1,481,732)**	**1,489,154**	**7,422**	1,516
Swiss Francs	**553,628**	**(541,041)**	**12,587**	65
Saudi Riyals	**(187,187)**	**180,944**	**(6,243)**	17,134
Kuwaiti Dinar	**(61,802)**	**54,116**	**(7,686)**	454
Bahraini Dinar	**34,383**	**88,795**	**123,178**	(72,026)
Others	**(111,227)**	**105,948**	**(5,279)**	17,390

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:

- 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.

4. Financial risk management (continued)

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 recognises 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 13% analyzed into two Tiers, of which Tier 1 capital adequacy must not be less than 8.5%.

Central Bank of UAE has issued guidance on Accounting Provisions and Capital Requirements-Transitional Arrangement dated 22 April 2020. The Prudential Filter allows Banks to add back increase in IFRS 9 ECL provisions, stage 1 and 2, from 31 December 2019 to the regulatory capital and transition over 5 years.

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

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings and IFRS traditional arrangement in line with the Central Bank guideline; and
- Tier 2 capital, which includes fair value reserves relating to unrealized gains/losses on investments classified as FVOCI 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:

	2021 AED'000	2020 AED'000
Tier 1 capital		
Share capital	**135,901**	135,901
Statutory reserve	**67,951**	67,951
Other disclosed reserves	**(42,923)**	7,315
Retained earnings	**2,546,644**	2,568,095
Prudential filters transitional adjustment	**-**	104,822
Tier 1 Capital	**2,707,573**	2,884,084
Upper tier 2 capital		
Collective provisions (1.25% of the CRWA)	**183,656**	158,577
Tier 2 capital	**183,656**	158,577
Total capital base (a)	**2,891,229**	3,042,661
Risk weighted assets (RWA) Pillar 1		
Credit risk	**14,692,447**	12,686,126
Market risk	**351,755**	413,332
Operational risk	**3,478,268**	3,542,583
Risk weighted assets (b)	**18,522,470**	16,642,041
Capital adequacy ratio (Pillar 1) (c)	**15.60%**	18.28%
Tier 1 ratio	**14.61%**	17.33%

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.

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
2021				
Financial Assets				
Cash and balances with Central Bank	-	12,420,508	-	12,420,508
Due from banks	-	3,101,192	-	3,101,192
Due from head office and branches abroad	-	619,223	-	619,223
Derivative assets	75,920		-	75,920
Loans and advances	-	8,279,954	-	8,279,954
Investment securities	6,752,436	-	5,699,021	12,451,457
Customer acceptances	-	402,295	-	402,295
Other assets	-	48,043	-	48,043
	6,828,356	24,871,215	5,699,021	37,398,592
Financial Liabilities				
Due to banks	-	188,014	-	188,014
Customers' deposits	-	30,148,380	-	30,148,380
Derivative liabilities	220,933	-	-	220,933
Due to head office and branches abroad	-	3,466,233	-	3,466,233
Customer acceptances	-	402,295	-	402,295
Other liabilities	-	3,181	-	3,181
	220,933	34,208,103	-	34,429,036

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
2020				
Financial Assets				
Cash and balances with Central Bank	-	7,319,581	-	7,319,581
Due from banks	-	2,775,277	-	2,775,277
Due from head office and branches abroa	-	123,307	-	123,307
Derivative assets	395,690	-	-	395,690
Loans and advances	-	7,869,545	-	7,869,545
Investment securities	5,873,394	-	7,115,189	12,988,583
Customer acceptances	-	177,779	-	177,779
Other assets	-	135,753	-	135,753
	6,269,084	18,401,242	7,115,189	31,785,515
Financial Liabilities				
Due to banks	-	169,067	-	169,067
Customers' deposits	-	25,589,183	-	25,589,183
Derivative liabilities	387,548	-	-	387,548
Due to head office and branches abroad	-	2,364,526	-	2,364,526
Customer acceptances	-	177,779	-	177,779
Other liabilities	-	2,812	-	2,812
	387,548	28,303,367	-	28,690,915

(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.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable 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 in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

5. Financial assets and liabilities (continued)

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

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumption are required to reflect differences between the instruments.

2021	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**
Assets			
Investment securities	**12,451,457**		**-**
Derivative assets		**75,920**	**-**
	12,451,457	**75,920**	**-**
Liabilities			
Derivative liabilities	**-**	**220,933**	**-**
	-	**220,933**	**-**
2020			
Assets			
Investment securities	12,988,583	-	-
Derivative assets	-	395,690	-
	12,988,583	395,690	
Liabilities			
Derivative liabilities	-	387,548	-
	-	387,548	-

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 since assets and liabilities are either short-term in nature or in the case of loans and advances and deposits, frequently re-priced. 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

	2021 AED'000	2020 AED'000
Cash in hand	**88,938**	67,783
Reserve with the Central Bank of UAE*	**2,132,156**	1,999,990
Certificate of deposit of the Central Bank of UAE	**7,708,782**	5,250,000
Current account with the Central Bank of UAE	**2,490,632**	1,808
	12,420,508	7,319,581

* The reserve requirements are kept with the Central Banks of the U.A.E, in UAE Dirhams and US Dollars. These reserves are not available for use in the Bank's day to day operations, and cannot be withdrawn without the approval of the Central Bank of UAE. The level of reserve required changes every 14 days in accordance with the requirements of the respective central banks' directives.

7. Due from banks

	2021 AED'000	2020 AED'000
Balances with other banks	**96,160**	103,977
Export finance discounted (without recourse)	**122,662**	200,354
Own acceptances discounted	**732,383**	151,446
Term loans	**508,029**	275,438
Import finance discounted	**1,642,575**	1,825,596
Islamic financing- Murabaha	**-**	219,647
	3,101,809	2,776,458
Less: Expected credit loss (Note 28)	**(617)**	(1,181)
	3,101,192	2,775,277

8. Loans and advances to customers

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

	2021 AED'000	2020 AED'000
Term loans	**2,513,255**	3,156,750
Islamic financing- Murabaha	**149,584**	204,346
Credit card advances	**2,489,773**	2,318,389
Overdraft	**2,990,402**	2,445,500
Others	**729,182**	535,672
	8,872,196	8,660,657
Less: Expected credit loss	**(573,133)**	(758,373)
Less: Interest in suspense	**(19,109)**	(32,739)
Net loans and advances	**8,279,954**	7,869,545

8. Loans and advances to customers (continued)

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

2021	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
At 1 January 2021	**196,018**	**246,412**	**315,943**	**758,373**
Net reversal of provision for the year (Note 28)	**(57,444)**	**(88,689)**	**(39,107)**	**(185,240)**
Write-off of fully provided loans	**-**	**-**	**-**	**-**
Balance as at 31 December 2021	**138,574**	**157,723**	**276,836**	**573,133**

2020	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
At 1 January 2020	133,288	200,518	376,232	710,038
Net charge of provision for the year (Note 28)	62,730	45,894	7,329	115,953
Write-off of fully provided loans	-	-	(67,618)	(67,618)
Balance as at 31 December 2020	196,018	246,412	315,943	758,373

9. Investment securities

	2021 AED'000	2020 AED'000
At fair value through OCI		
Government bonds (AA rated)	**5,699,021**	5,873,394
At fair value through profit or loss		
Government bonds (AA rated)	**6,752,436**	7,115,189
Total	**12,451,457**	12,988,583

Movement during the year were as follows:

	2021 AED'000	2020 AED'000
At 1 January	**12,988,583**	7,564,898
Additions during the year	**12,507,117**	30,513,867
Disposed during the year	**(12,992,469)**	(25,111,892)
Change in fair value of investment *	**(51,774)**	21,710
Total	**12,451,457**	12,988,583

At 31 December 2021, AED 8.7 billion (2020: 12.5billion) of investment securities are expected to mature more than 12 months after the reporting date.

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 2020	161,640	149,300	6,021	316,961
Additions	23,124	21,451	1,901	46,476
Disposals/transfers	(14,467)	(65,186)	(7,671)	(87,324)
At 31 December 2020	170,297	105,565	251	276,113
At 1 January 2021	**170,297**	**105,565**	**251**	**276,113**
Additions	**2,611**	**16,325**	**5,712**	**24,648**
Disposals/transfers	**(14,816)**	**(7,984)**	-	**(22,800)**
At 31 December 2021	**158,092**	**113,906**	**5,963**	**277,961**
Accumulated depreciation				
At 1 January 2020	79,518	84,946	-	164,464
Charge for the year	23,009	12,515	-	35,524
Disposals/transfer	(22,509)	(43,908)	-	(66,417)
At 31 December 2020	80,018	53,553	-	133,571
At 1 January 2021	**80,018**	**53,553**	-	**133,571**
Charge for the year	**22,372**	**15,871**	-	**38,243**
Disposals/transfer	**(16,551)**	**(2,440)**	-	**(18,990)**
At 31 December 2021	**85,839**	**66,984**	-	**152,823**
Net book value				
At 31 December 2021	**72,253**	**46,922**	**5,963**	**125,138**
At 31 December 2020	**90,279**	**52,012**	**251**	**142,542**

11. Other assets

	2021 AED'000	2020 AED'000
Accrued interest receivable	**48,043**	135,753
Prepayments and other receivables	**429,834**	285,962
Right of use asset	**36,076**	42,701
Deferred tax assets (note 19)	**191,504**	232,566
	705,457	696,982

12. Due to banks

	2021 AED'000	2020 AED'000
Balances with other banks	**188,014**	169,067
	188,014	169,067

13. Customers' deposits

	2021 AED'000	2020 AED'000
Current and demand accounts	**24,374,371**	21,467,626
Savings accounts	**4,886,182**	3,217,215
Time deposits	**470,915**	447,137
Islamic deposits- Qard	**4**	113,609
Others	**416,908**	343,596
	30,148,380	25,589,183

14. Other liabilities

	2021 AED'000	2020 AED'000
Accrued interest payable	**3,181**	2,812
Unamortized insurance fee	**-**	17,377
Employees' terminal benefits	**101,195**	98,195
Provision for taxation (note 19)	**102,516**	130,264
Clearing account	**232,846**	348,013
Other provisions and accruals	**560,172**	339,408
Lease liability	**30,563**	37,144
Provision for expected credit loss on financial guarantees, letter of credit and customer acceptance (Note 28)	**8,638**	32,700
VAT payable	**8,605**	16,008
	1,047,716	1,021,921

14. Other liabilities (continued)

	2021 AED'000	2020 AED'000
Reconciliation of payable to defined benefit plan		
Present value of defined benefit obligation	**101,195**	98,195

	2021 AED'000	2020 AED'000
Opening net liability	**98,195**	74,781
Expense during the year	**14,538**	13,846
Re-measurement of post-employment benefits obligation	**(3,537)**	12,474
Transfer ESB In/(Out)	**-**	-
Benefit paid during the year	**(8,001)**	(2,906)
Closing net liability	**101,195**	98,195
Charge for the defined benefit plan		
Current service cost	**12,865**	10,561
Interest cost	**1,673**	3,285
	14,538	13,846
Actuarial assumption		
Valuation on discount rate	**2.40%**	1.85%
Salary increase rate	**4.00%**	4.00%

15. Allocated capital

In accordance with the UAE Federal Law No (2) of 2015 (as amended) 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 (as amended) 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

	2021 AED'000	2020 AED'000
Re-measurement of post-employment benefits	**(10,782)**	(14,130)
Net charge from Citigroup Inc. – share based incentives	**4,603**	6,415
	(6,179)	(7,715)

17. Fees and commission income - net

	2021 **AED'000**	2020 AED'000
Commission on sale of third party investment products	**106,130**	66,246
Operations fees and service charges	**32,626**	28,997
Commission on trade finance	**37,614**	37,785
Others fees and commission	**232,282**	279,148
	408,652	412,176

18. General and administrative expenses

	2021 **AED'000**	2020 AED'000
Staff costs	**385,078**	381,786
Head office administration, supervision and other costs	**469,108**	429,786
Depreciation	**38,243**	35,524
Other	**18,894**	14,098
	911,323	861,194

Staff costs include share-based payments as below:

	2021 **AED'000**	2020 AED'000
Capital Accumulation Program (CAP) expenses	**12,051**	10,953
	12,051	10,953

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 2021, total number of employees was 721 (2020:667)

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.

	2021 AED'000	2020 AED'000
Movement in current tax provision		
Balance at 1 January	**130,264**	180,088
Tax paid	**(131,016)**	(182,791)
Current tax expense for the year	**103,268**	132,967
Balance at 31 December	**102,516**	130,264
Current tax expense		
Current year	**102,516**	130,264
Adjustment for prior years	**(14,532)**	2,703
	87,984	132,967
Deferred tax credit		
Origination and reversal of temporary differences	**41,062**	(36,383)
Total income tax expense	**129,046**	96,584

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:

	2021 AED'000	2020 AED'000
Accounting profit	**489,696**	478,685
Tax at the applicable rate of 20%	**97,939**	95,737
Adjustments:		
Other tax adjustments	**31,107**	847
Tax expense	**129,046**	96,584
Effective Tax rate	**26.35%**	20.18%

19. Taxation (continued)

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

2021	**At 1 January 2021 AED'000**	**Charge to profit/(credit) AED'000**	**Charge to other comprehensive income AED'000**	**At 31 December 2021 AED'000**
Impairment provision on loans and advances to customers	**232,566**	**(41,062)**	**-**	**191,504**
Total	**232,566**	**(41,062)**	**-**	**191,504**

2020	At 1 January 2020 AED'000	Charge to profit/(credit) AED'000	Charge to other comprehensive income AED'000	At 31 December 2020 AED'000
Impairment provision on loans and advances to customers	196,183	36,383	-	232,566
Total	196,183	36,383	-	232,566

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.

	2021 AED'000	2020 AED'000
Letters of credit	**374,122**	759,259
Guarantees	**3,530,175**	3,839,806
Undrawn loan commitments	**1,896,055**	1,763,184
	5,800,352	6,362,249

20. Contingent liabilities and commitments (continued)

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

	2021 AED'000	2020 AED'000
Cash and balances with Central Bank of UAE (excluding reserves)	**10,288,352**	5,319,591
Due from banks	**1,960,059**	1,734,594
Due from head office and branches abroad	**619,223**	123,307
Due to banks	**(188,012)**	(169,065)
Due to head office and branches abroad	**(3,466,233)**	(2,364,526)
	9,213,389	4,643,901

22. Derivatives

			Notional Amounts				
31 December 2021	**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	**63,193**	**208,150**	**174,033**	**91,877**	**5,433**	**-**	**271,343**
Foreign exchange options	**139**	**139**	**278**	**-**	**-**	**-**	**278**
Cross currency swaps	**5,509**	**5,564**	**11,073**	**-**	**-**	**-**	**11,073**
Interest rate swaps	**7,079**	**7,080**	**14,159**	**-**	**-**	**-**	**14,159**
Total	**75,920**	**220,933**	**199,543**	**91,877**	**5,433**	**-**	**296,853**

22. Derivatives (continued)

31 December 2020	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	152,076	142,237	42,115,755	13,123,811	2,941,614	-	58,181,180
Foreign exchange options	-	-	-	-	-	-	-
Cross currency swaps	222,840	223,801	-	848,995	21,339	-	870,334
Interest rate swaps	20,774	21,510	158,680	-	1,101,945	-	1,260,625
Total	395,690	387,548	42,274,435	13,972,806	4,064,898	-	60,312,139

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

Related Party

A party is considered to be related to the Bank if:

- The party, directly or indirectly through one or more intermediaries,

  a) controls, is controlled by, or is under common control with, the Bank;
  b) has an interest in the Branches that gives it significant influence over the Bank; or
  c) has joint control over the Bank;

- The party is an associate.
- The party is a jointly controlled entity.
- The party is a member of the key management personnel of the Bank.
- The party is a close member of the family of key management personnel
- The party is an entity that is controlled, jointly controlled, or significantly influenced by or for which
- significant voting power in such entity resides with, directly or indirectly, any key management personnel
- The party is a post-employment benefit plan for the benefit of the employees of the Bank, or of any entity
- that is a related party of the Bank

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

23. Related party transactions (continued)

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

	2021 AED'000	2020 AED'000
Due from head office and branches abroad	**619,223**	123,307
Due to head office and branches abroad	**(3,466,233)**	(2,364,526)
Derivative assets	**62,880**	353,329
Derivative liabilities	**(207,203)**	(356,765)

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

	2021 AED'000	2020 AED'000
Interest income	**256**	1,155
Interest expense	**(12,567)**	(12,318)
Head office administration and supervision	**224,802**	(35,312)
Net intercompany service charges	**8,721**	(128,189)
Net Foreign Exchange and other income	**145,479**	132,170
Off balance sheet		
- Guarantees	**161,127**	564,652
- Letters of credit	**-**	10,216
Key management personnel		
- Short term benefits	**13,009**	14,523
- Share based benefits	**2,345**	2,746
- Employee end of service benefits	**431**	474
	15,785	17,743

Transactions with key management personnel:

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

	2021 AED'000		2020 AED'000	
	Maximum balance	**Closing balance**	Maximum balance	Closing balance
Loans	**297**	**165**	118	84
Credit cards	**573**	**427**	122	61

24. Interest income

	2021	2020
	AED'000	AED'000
Placement with banks	**9,877**	168,814
Loans and advances to customers	**645,845**	702,973
Investments	**37,436**	43,696
	693,158	915,483

25. Interest expense

	2021	2020
	AED'000	AED'000
Customer deposits	**36,313**	47,965
Borrowings	**4,421**	6,940
	40,734	54,905

26. Other operating income - net

	2021	2020
	AED'000	AED'000
Foreign exchange income	**359,231**	303,691
Other (losses) /(gain)	**(1,869)**	6,904
	357,362	310,595

27. Islamic loan, deposit and income

	2021	2020
	AED'000	AED'000
Islamic financing- Murabaha	**15,151**	265,102
Islamic financing - Ijarah	**134,432**	158,891
Islamic deposits- Quard	**4**	113,608
Income from Islamic financing	**5,633**	8,836

28. Impairment losses

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

	2021 AED'000	2020 AED'000
Net expected credit loss reversal of provision for loans and advances (Note 8)	**(185,240)**	115,953
Expected credit loss charge for due from banks (Note 7)	**(564)**	295
Expected credit loss (reversal)/charge on financial guarantees, letter of credit and customer acceptance (Note 14)	**(24,062)**	24,046
Loans and advances directly written off, net of recoveries	**248,207**	213,427
	38,341	353,721

29. Comparative figures

No items have been reclassified in the statement of financial position for the prior year ended 31 December 2021.

30 Subsequent events

During the period between the end of the reporting period and the date of authorisation of these financial statements, there were no events that would have material effect on the operations of the Bank.