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 (2018: four) located in the Emirates of Abu Dhabi, Dubai and Sharjah under a license issued by the Central Bank of UAE ("CBUAE").

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

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

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

2. Regulatory capital

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

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

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

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

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

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

- Tier 1 capital, which includes ordinary share capital, translation reserve, fair value reserves relating to unrealized gains / losses on investments classified as available-for-sale and derivatives held as cash flow hedges and retained earnings; and
- Tier 2 capital, which includes, 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").

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

	2019 AED'000
Tier 1 capital	
Share capital	**135,901**
Statutory reserve	**67,951**
Other disclosed reserves	**10,315**
Retained earnings	**2,185,994**
Tier 1 Capital	**2,400,161**
Upper tier 2 capital	
Collective provisions (1.25% of the CRWA)	**159,513**
Tier 2 capital	**159,513**
Total capital base (a)	**2,559,674**
Risk weighted assets (RWA) Pillar 1	
Credit risk	**12,761,042**
Market risk	**425,592**
Operational risk	**3,299,675**
Risk weighted assets (b)	**16,486,309**
Capital adequacy ratio (Pillar 1) (c)	**15.53%**
Tier 1 ratio	**14.56%**

Capital allocation

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

3. 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.

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:

	2019			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Corporate Loans				
Grades 1 to 7: Current	**4,202,006**	**145,889**	**3,861**	**4,351,756**
Grades 1 to 7: Watch list	**-**	**-**	**-**	**-**
Grade 7: Substandard	**-**	**-**	**-**	**-**
Grade 10: Doubtful/Loss	**-**	**-**	**320,890**	**320,890**
Total gross carrying amount corporate loans	**4,202,006**	**145,889**	**324,751**	**4,672,646**
Consumer loans	**4,945,705**	**229,577**	**88,577**	**5,263,859**
Due from banks	**2,807,908**	-	-	**2,807,908**
Due from head office and other branches	**115,154**	-	-	**115,154**
Customer acceptances	**92,309**	-	-	**92,309**
Loan commitments, financial guarantees and letters of credit	**6,673,257**	**148,327**	**2,138**	**6,823,722**
Total gross amount	**18,836,339**	**523,793**	**415,466**	**19,775,598**
Less: Expected credit loss	**(139,299)**	**(203,341)**	**(377,824)**	**(720,464)**
Less: Interest in suspense	**-**	**-**	**(23,944)**	**(23,944)**
Net carrying amount	**18,697,040**	**320,452**	**13,698**	**19,031,190**

Expected credit loss allowance

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

	1 January 2019 AED'000	Net reversal during the year AED'000	31 December 2019 AED'000
Due from banks	**886**	**-**	**886**
Loans and advances to customers	**713,426**	**(3,388)**	**710,038**
Total on balance sheet	**714,312**	**(3,388)**	**710,924**
Loan commitments, financial guarantees and letters of credit	**10,715**	**(2,061)**	**8,654**
Total off balance sheet	**10,715**	**(2,061)**	**8,654**
Total expected credit loss allowance	**725,027**	**(5,449)**	**720,464**

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 2018 and 31 December 2019 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.

Groupings based on shared risks characteristics

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

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

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

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

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

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

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

	2019
	AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:	
Due from banks	**2,807,022**
Due from head office and branches abroad	**115,154**
Derivatives	**170,002**
Loans and advances to customers	**9,202,523**
Investment securities	**7,564,898**
Customer acceptances	**92,309**
Credit risk exposures relating to off-balance sheet items are as follows:	
Loan commitments and other off balance sheet items	**6,823,722**
	26,775,630

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

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 2019 or 2018.

Loans with renegotiated terms

Restructuring activity is designed to manage customer relationships, maximize collection opportunities and avoid foreclosure or repossession, if possible. Restructuring is done based on indications or criteria which, in the opinion of management, evidence the probability that payment will continue. At 31 December 2019 renegotiated loans amount to AED Nil (2018: AED Nil).

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.

4. Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the 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.

2019 ***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**	**Undrawn commitments AED'000**	**Total on off-balance sheet AED'000**
Commercial and business:-							
Agriculture & allied activities	**1,101**	**-**	**-**	**-**	**1,101**	**23,287**	**-**
Mining & quarrying	**301,377**	**-**	**-**	**-**	**301,377**	**82,696**	**506,000**
Manufacturing	**1,011,101**	**-**	**169**	**-**	**1,011,270**	**265,099**	**849,214**
Electricity & water	**132,783**	**-**	**-**	**-**	**132,783**	**17,068**	**41,270**
Construction	**66,213**	**-**	**-**	**-**	**66,213**	**7,086**	**122,521**
Real estate	**-**	**-**	**-**	**-**	**-**	**275,475**	**-**
Trade	**1,270,485**	**-**	**2,596**	**-**	**1,273,081**	**272,695**	**974,862**
Transport & communication	**774,523**	**-**	**58**	**-**	**774,581**	**237,159**	**253,413**
Services	**383,986**	**-**	**-**	**-**	**383,986**	**342,659**	**582,585**
Total commercial and business	**3,941,569**	**-**	**2,823**	**-**	**3,944,392**	**1,523,224**	**3,329,865**
Financial institutions	**660,609**	**-**	**259,850**	**2,923,062**	**3,843,521**	**344,969**	**1,196,820**
Government and public sector entities	**65,039**	**7,564,898**	**211**	**-**	**7,630,148**	**142,707**	**1,232**
Consumer banking	**5,263,859**	**-**	**-**	**-**	**5,263,859**	**48,157**	**6,705,732**
Others	**5,429**	**-**	**-**	**-**	**5,429**	**50,847**	**183,465**
Total gross amount	**9,936,505**	**7,564,898**	**262,884**	**2,923,062**	**20,687,349**	**2,109,904**	**11,417,114**

Concentration of credit risk by geographic location:

2019	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	Undrawn commitments AED '000	Total off-balance sheet AED'000
Concentration by location							
UAE	**8,596,406**	**296,106**	**9,746**	**2,458,820**	**11,361,078**	**2,021,670**	**10,248,557**
GCC	**122,914**	**52**	**15,872**	**255,930**	**394,768**	**9,917**	**240,884**
Other Arab countries	**67,537**	**-**	**-**	**42,036**	**109,573**	**1,774**	**215,846**
Asia	**187,969**	**-**	**34**	**80,699**	**268,702**	**-**	**201,665**
Africa	**19,082**	**-**	**-**	**31,228**	**50,310**	**51,950**	**35,990**
USA	**1,297**	**7,268,740**	**62**	**25,108**	**7,295,207**	**3,094**	**121,534**
Europe	**349,219**	**-**	**237,170**	**21,142**	**607,531**	**20,872**	**315,444**
Others	**592,081**	**-**	**-**	**8,099**	**600,180**	**626**	**37,194**
Total Gross amount	**9,936,505**	**7,564,898**	**262,884**	**2,923,062**	**20,687,349**	**2,109,904**	**11,417,114**

Concentration of credit risk by currency:

2019	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	Undrawn commitments AED'000	Total off-balance sheet AED'000
Concentration by currency							
AED	**4,007,598**	**38**	**414**	**1,828,149**	**5,836,199**	**495,718**	**8,028,334**
Foreign currency	**5,928,908**	**7,564,860**	**260,470**	**1,094,913**	**14,849,151**	**1,614,186**	**3,388,780**
	9,936,506	**7,564,898**	**260,884**	**2,923,062**	**20,685,350**	**2,109,904**	**11,417,114**

2019 *Residual Contractual maturity*	Loans and advances AED'000	Debt securities AED'000	Derivative assets AED'000	Due from banks/ head office and branches abroad AED'000	Total on balance sheet AED'000	Undrawn commitments AED'000	Off balance sheet AED'000
Less than 3 months	**6,865,232**	**-**	**36,183**	**1,783,618**	**8,685,033**	**316,773**	**8,463,406**
3 Months to 1 year	**770,809**	**3,559,928**	**62,752**	**863,958**	**5,257,447**	**659,296**	**1,084,436**
One to five years	**2,300,465**	**4,004,970**	**163,949**	**275,486**	**6,744,870**	**891,234**	**1,398,874**
Over five years	-	-	-	-	-	**242,601**	**470,398**
	9,202,523	**7,564,898**	**262,884**	**2,923,062**	**20,685,350**	**2,109,904**	**11,417,114**

5. Credit Risk

CREDIT RISK	STANDARDISED APPROACH				CR1 AED 000's
ASSET CLASSES	ON & OFF BALANCE SHEET	CREDIT RISK MITIGATION (CRM)		ON & OFF BALANCE SHEET	RISK WEIGHTED ASSETS
See Basel II, June 2006, Para 50 to 81, and Central Bank National Discretions	GROSS OUTSTANDING	EXPOSURE BEFORE CRM	CRM	NET EXPOSURE AFTER CREDIT CONVERSION FACTORS (CCF)	
CLAIMS ON SOVEREIGNS	16,045,076	16,045,076	0	16,045,076	0
CLAIMS ON NON-COMMERCIAL PUBLIC SECTOR ENTERPRISES (PSEs)	183,645	183,645	0	64,757	0
CLAIMS ON MULTI LATERAL DEVELOPMENT BANKS	5,509	5,509	0	455	91
CLAIMS ON BANKS	6,173,848	6,173,848	0	5,779,955	1,699,132
CLAIMS ON SECURITIES FIRMS	0	0	0	0	0
CLAIMS ON CORPORATES AND GOVERNMENT RELATED ENTERPRISES (GRE)	8,923,150	8,923,150	1,171,391	5,644,522	4,895,376
CLAIMS INCLUDED IN THE REGULATORY RETAIL PORTFOLIO	12,779,953	12,779,953	194,861	5,848,598	4,847,476
CLAIMS SECURED BY RESIDENTIAL PROPERTY	47,948	47,948	0	47,948	16,782
CLAIMS SECURED BY COMMERCIAL REAL ESTATE	0	0	0	0	0
PAST DUE LOANS	410,495	100,246	7,530	99,179	91,648
HIGHER-RISK CATEGORIES	0	0	0	0	0
OTHER ASSETS	1,174,945	1,174,945	0	1,174,945	1,210,537
SECURITISATION EXPOSURES	0	0	0	0	0
CREDIT DERIVATIVES (Banks Selling protection)	0	0	0	0	0
TOTAL CLAIMS	45,744,570	45,434,320	1,373,782	34,705,436	12,761,042

The Bank has complied with all externally imposed capital requirements throughout the year. There have been no material changes in the Bank's management of capital during the year.

The Bank uses the following external credit assessment institutions (ECAIs): Standard & Poors', Moody's, Fitch and Capital Intelligence. The external rating of ECAI is mapped to the prescribed credit quality assessment scale that in turn produces standard risk weightings. The Bank also uses various Credit Risk Mitigation techniques (CRM). However, only cash and bank guarantees are used in calculation of Pillar I Capital requirements.

Risk weighted assets as per standardized approach is set out below:

	2019
	Exposure AED'000
Gross exposure prior to CRM	**45,744,570**
Less: Eligible financial collateral	**(1,373,782)**
Net exposure after CRM and CCF	**34,705,436**
Risk weighted assets	**12,761,042**

6. Market risk

Risk weights for market risk

Capital requirement for market risk is calculated using standardized approach. The capital requirement for market risk is analysed into capital requirement for interest rate risk, equity risk, foreign exchange risk and option risk.

				AED 000's	AED 000's
	See Basel II, June 2006, Para 709 to 718(Lxix)				
		INTEREST RATE RISK - TRADING BOOK		**Capital requirement (Basel)**	**Capital requirement (UAE)**
	MR2	**1)**	SPECIFIC RISK	0	0
	MR3	**2)**	GENERAL RISK - MATURITY BASED	7,655	10,048
	MR4	**or 3)**	GENERAL RISK - DURATION BASED	0	0
	MR5	**FOREIGN EXCHANGE RISK**		26,392	34,639
	MR6	**EQUITY EXPOSURE RISK- TRADING BOOK**			
		1)	GENERAL RISK	0	0
		2)	SPECIFIC RISK	0	0
	MR7	**COMMODITY RISK- TRADING BOOK**			
		1)	MATURITY LADDER APPROACH	0	0
		2)	SIMPLIFIED APPROACH	0	0
		OPTIONS RISK			
	MR8	**1)**	SIMPLIFIED APPROACH	0	0
	MR9	**2)**	INTERMEDIATE APPROACH	0	0
		MARKET RISK TOTAL CAPITAL CHARGE		34,047	44,687

7. Operational risk

Capital requirement for operation risk is calculated using Standardized approach. The capital allocated for operation risk is AED 347 Million.

APPROACH & BANKING ACTIVITIES	GROSS INCOME (Audited)									LOANS AND ADVANCES (IN CASE OF ASA APPLICATION)				Three year average	Beta factor	CAPITAL CHARGE (Basel)	CAPITAL CHARGE (U.A.E)
	YEAR-3			YEAR-2			LAST YEAR			YEAR-3	YEAR-2	LAST YEAR	M factor * 0.035				
	Net Interest Income	Net non interest income	Gross Income	Net Interest Income	Net non interest income	Gross Income	Net Interest Income	Net non interest income	Gross Income								
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	16
1.BASIC INDICATOR APPROACH (BIA)			0			0			0					0	**15%**	0	0
2.STANDARDISED APPROACH (STA)																	
CORPORATE FINANCE	16,587		16,587	21,906		21,906	30,561		30,561					23,018	**18%**	4,143	5,438
TRADING AND SALES	2,385	319,741	322,126	10,055	276,531	286,586	23,078	310,134	333,212					313,975	**18%**	56,515	74,177
PAYMENT AND SETTLEMENT		100,074	100,074		108,971	108,971		81,841	81,841					96,962	**18%**	17,453	22,907
COMMERCIAL BANKING	238,144	167,777	405,921	259,868	288,124	547,992	376,966	228,124	605,090					519,668	**15%**	77,950	102,310
AGENCY SERVICES			0			0	0	27,225	27,225					9,075	**15%**	1,361	1,787
RETAIL BROKERAGE			0			0			0					0	**12%**	0	0
RETAIL BANKING	571,251	285,484	856,735	555,629	292,971	848,600	619,880	338,553	958,433					887,923	**12%**	106,551	139,848
ASSET MANAGEMENT			0			0			0					0	**12%**	0	0
2.TOTAL BANKING ACTIVITIES SUBJECT TO STANDARDISED (STA)	828,367	873,076	1,701,443	847,458	966,597	1,814,055	1,050,485	985,877	2,036,362					1,850,620		263,974	346,466

9. Interest Rate Exposure

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

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

Interest rate risk is also assessed by measuring the impact of defined movements in interest yield curves on the Bank's net interest income. The following impact on the net interest income for the year of an immediate and permanent movement in interest yield curves as at 31 December 2019.

Shift in Yield Curve	**2019 Net interest income AED’000**
+100 b.p.	**39,007**
-100 b.p.	**(34,306)**