بنك الاتحاد الوطني
UNION NATIONAL BANK

ANNUAL REPORT 2018

Late Sheikh Zayed bin Sultan Al Nahyan
Founder of the U.A.E.

H.H. Sheikh Khalifa bin Zayed Al Nahyan
President of the U.A.E.

H.H. Sheikh Mohammed bin Rashid Al Maktoum
U.A.E. Vice-President, Prime Minister & Ruler of Dubai

H.H. General Sheikh Mohammed bin Zayed Al Nahyan
Abu Dhabi Crown Prince &
Deputy Supreme Commander of the U.A.E. Armed Forces

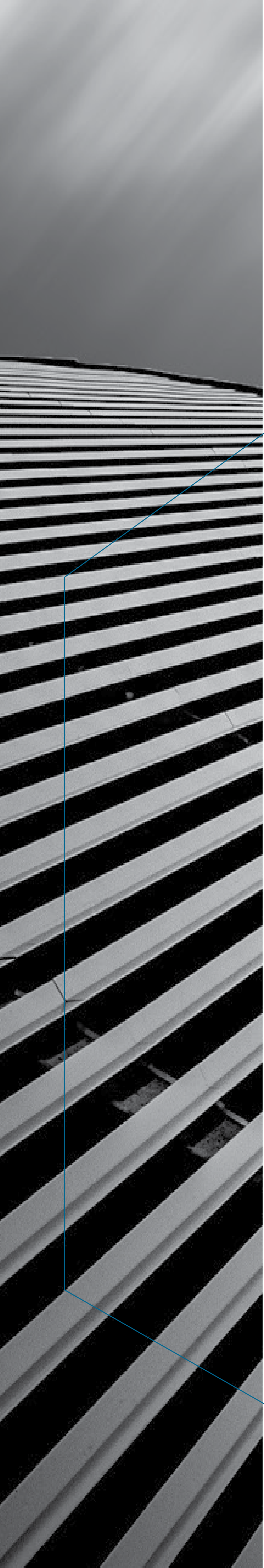


TABLE OF CONTENTS

Contents **page**

Board of Directors	1
UNB Network	3 - 5
Chairman's Reoprt	6 - 7
Chief Executive Officer's Review	8 - 13
Corporate Governance Report	14 - 23
Independent Auditor's Report	24 - 29
Consolidated Financial Statements	30 – 121
Basel – Pillar 3 Disclosure	122 - 145

BOARD OF DIRECTORS

H.H. Sheikh Nahayan Mabarak Al Nahayan
CHAIRMAN

H.E. Mohamed Bin Dhaen Al Hamli
VICE CHAIRMAN

Mr. Khalifa Sultan Al Suwaidi
DIRECTOR

H.E. Mattar Mohamed Al Tayer
DIRECTOR

Mr. Yousef Abdelaziz Al Harmoodi
DIRECTOR

Mr. Abdulwahed Al Fahim
DIRECTOR

Mr. Ahmed Jasim Al Zaabi
DIRECTOR

Mr. Hussain Jasim Al Nowais
DIRECTOR

Mr. Khalfan Saeed Al Kaabi
DIRECTOR


بنك الإتحاد الوطني
UNION NATIONAL BANK

UNB NETWORK

BRANCHES

ABU DHABI		FAX NO.
1	Salam	02-6795806
2	Corniche	02-6210671
3	Khalidiya	02-6352588
4	ADGAS	02-6272062
5	City Center	02-6656691
6	Airport Road	02-6226310
7	Najda	02-6349616
8	Al Reem	02-6738720
9	Al Wahda	02-4438229
10	Mina	02-6799552
11	Khalifa Part	02-4492427
12	Murshrif	02-5576571
13	Mussafah	02-5547565
14	ADNOC	02-6796206
15	Hazzaa	02-6412416
16	Shahama	02-5633133
17	Mussafah Industrial Area	02-5551507
18	Muroor	02-4449986
19	Sheikh Khalifa City A	02-5567738
20	Zayed University	02-5577654
21	Defence Road	02-4439129
22	Al Dhafra	02-8847633
23	Habshan	02-8831199
24	Baniyas	02-5822580
25	Asab	02-8860052
26	Mohammed Bin Zayed	02-5528402
27	Bein Al Jisrain	02-6811850
28	Al Ruwais	02-8762601
29	Yas Mall	02-5650332

AL AIN		FAX NO.
1	Khalifa Street	03-7655527
2	Al Hili	03-7626203
3	UAE University	03-7676223
4	Al Yahar	03-7814629
5	Al Jebel Roundabout	03-7551199
6	Al Ain Mall	03-7511171
7	Bawadi Mall	03-7840516

DUBAI		FAX NO.
1	Jebel Ali	04-8810181
2	Al BArsha	04-3928462
3	Al Wasl	04-3492827
4	Jumeirah	04-3443691
5	Sheikh Zayed Road	04-3314746
6	Khalid Bin Walid Street	04-3519975
7	Dubai Health Care City	04-4298379
8	Dubai Marine	04-3951427
9	South Ridge	04-4438710

DUBAI		FAX NO.
1	Dubai Investment Park	04-8848945
2	Oasis Center	04-3306428
3	TECOM	04-2766148
4	Dubai World Central	04-8842569
5	Deira	04-2237440
6	Al Maktoum	04-2233390
7	Al Bustan	04-2636394
8	Rashidiya	04-2852996
9	Mirdiff	04-2847102
10	Al Nahda	04-2578823
11	Abu Hail	04-2656260
12	Al Garhoud	04-2555507
13	Dragon Mart	04-2569821
14	Dubai Silicon Oasis	04-3886022

SHARJAH & NORTHERN EMIRATES		FAX NO.
1	Sharjah	06-5684097
2	Fujairah	09-2224851
3	Ras Al Khaimah	07-2286500
4	Ajman	06-7439385
5	Dibba	09-2440144
6	Al Buhaira	06-5735137
7	Khorfakkan	09-2371413
8	Kalba	09-2775400
9	Al Ta'awon	06-5304929
10	Umm Al Quwain	06-7649001
11	Al Arooba	06-5758845
12	Al Dhaid	06-8822845
13	Al Rumaila	06-7413689
14	Al Qasim	07-2338837
15	Al Jurf	06-7407826
16	Sharjah Industrial	06-5429089

To get in touch with us call :

- 600 - 566 - 665 from within the UAE
- +971-2-6930120 from outside the UAE

OVERSEAS BRANCHES AND REPRESENTATIVE OFFICE

REGIONAL BRANCHES		TEL NO.	FAX NO.
1	UNB-Qatar, Qatar Financial Centre	(+974) - 44069700	(+974) - 44838210
2	UNB-Kuwait	(+965) - 22950500	(+965) - 22950501
3	UNB-China, Shanghai Branch	(+86) – 2180228688	(+86) - 2168806889

UNION BROKERAGE LLC (UBC)

BRANCHES		TEL NO.	FAX NO.
1	Main office – Abu Dhabi	02-6172100	02-6315702
2	DFM office	04-6172191	04-6315702

SUBSIDIARIES

AL WIFAQ FINANCE COMPANY

	BRANCHES	TEL NO.	FAX NO.
1	Head office – Abu Dhabi Airport Road	02-4035600	02-4436046
2	Al Wifaq Finance Branch	02-4035666	02-4450844
3	Mussafah	02-5538361	02-5538310
4	Al Ain	03-7646219	03-7646319
5	Dubai – Abu Hail	04-2397967	04-2388194
6	Dubai – Sheikh Zayed Road	04-5182900	04-3212099
7	Al Sharjah – King Abdul Aziz St.	06-5065700	06-5755551
8	Fujairah	09-2234814	09-2238460

AL WIFAQ PROPERTIES LLC

	BRANCH	TEL NO.	FAX NO.
1	Abu Dhabi	02-4918498	02-4918658
2	Sharjah	02-5733327	06-5735918

UNION NATIONAL BANK – EGYPT

	BRANCHES	TEL NO.		BRANCHES	TEL NO.
1	Head Office	0233011300	26	Lagoon	033854219
2	Talaat Harb	0223926021	27	Port Said	0663200591
3	Nasr City	0224019606	28	Suez	0623343576
4	Haram	0237804871	29	Ismailia	0643911730
5	Heliopolis	0222560350	30	Damietta	0572324911
6	Al-Hegaz	0221809016	31	Sharm El- Sheikh	0693666623
7	Obour	0244828290	32	Hurghada	0653453140
8	Mokattam	0225040315	33	Mansoura	0502202699
9	Shobra	0225764004	34	Zagazig	0552335590
10	Mohandeseen – Mohie El-Din Abou El-Ezz st.	0237497218	35	Tanta	0403598411
11	Mohandeseen – Gamaet Al-Dowal	0233474242	36	Kafr El- Sheikh	0473230435
12	5th Settlement	0225371191	37	El – Mahala	0402253497
13	10th of Ramadan	0554356178	38	Damnhour	0453370262
14	6th of October	0238301051	39	Shbeen El – Koum	0482333052
15	Strip Mall - Sheikh Zayed	0238579223	40	Benha	0133255610
16	Maadi - Kornish	0225282611	41	Assuit	0882061235
17	Maadi	0223104245	42	Suhag	0932314453
18	Maadi - Laselky	0225173274	43	Menia	0862339008
19	Madinaty	0201149449992	44	Safwa Mall – Sheikh Zayed	0238860451
20	Zamalik	0227377390	45	Meet Ghamr	0504906014
21	El – Horya	034955511	46	Bani Sueif	0822133650
22	Gleem	035829175	47	Quena	01093889488
23	Saad Zaghloul	034838621	48	Al Tayarna	0223879440
24	Saraya	033582911	49	Almaza	0222913794
25	Semouha	034281868			

INJAZ MARKETING MANAGEMENT

	BRANCH	TEL NO.	FAX NO.
1	Deira main branch (Dubai)	04-2525169	04-2211697
2	Khalid Bin Waleed Road Branch (Dubai)	04-3588680	04-3588847
3	Buhaira Golden Tower Branch (Sharjah)	06-5172500	06-5515355
4	Khalifa Street Branch Al Ain	03-7055622 / 7857564	03-7645568
5	Muroor Branch (Abu Dhabi)	02-4448384	02-4449986
6	Khalidiya Branch (Abu Dhabi)	02-5059600	02-6588194

CHAIRMAN'S REPORT

On behalf of the Board of Directors, I am pleased to present to you the 2018 consolidated financial statements for the Union National Bank (UNB) Group.

Global Economy

The global economy continued to perform well in 2018 and is expected to marginally slowdown in 2019 due to the downside risks emanating from tightening of fiscal stimulus, higher interest rates, trade tensions between the US and China, uncertainties around Brexit, softer growth in Euro zone and headwinds across emerging market economies.

Gulf Cooperation Council (GCC) and the UAE

The GCC region is expected to mark an improvement in economic growth in 2019 due to stable oil prices, improved output, and higher non-oil activity. The GCC countries continue their effort to boost the non-oil economic activities through focussed actions.

The UAE economy is relatively more diversified and is expected to grow faster than the rest of the GCC countries driven by an increase in non-oil activity supported by government spending to support Dubai Expo preparations and effort to promote private participation in non-oil sector to achieve higher economic diversification.

The UAE banking sector continued to grow in 2018 underpinned with adequate liquidity and capital buffers. The banking sector successfully adopted the IFRS 9: Financial Instruments as also the implementation of Value Added Tax, which became effective from 1 January 2018.

UNB Group

The UNB Group reported a net profit of AED 1,186 million for fiscal year 2018. The operating profit of AED 2,070 million registered a decline of 17% compared to the previous year.

The reduction in operating profit in 2018 was due to lower operating income by 9% at AED 3,312 million. This decrease was largely driven by a decline in non-interest income partly offset by an increase in net interest income by 6%.

The non-interest income was lower by 48% in 2018 to AED 514 million due to reduction in fees and commission income mainly driven by lower business volumes in Retail Banking business and fair value loss on investment properties. The Group recognized a fair value loss on investment properties of AED 232 million in 2018 as the property prices remained soft.

The net interest income and net income from Islamic financing at AED 2,798 million for the year ended 31 December 2018, increased by 6% over prior year due to an increase in net interest margin which was higher by 18 bps in 2018 at 2.75%.

The consolidated assets of the Group as at 31 December 2018 were AED 107.0 billion, largely unchanged compared to the prior year-end. Net loans and advances increased by 2% to AED 72.3 billion as at 31 December 2018 due to growth witnessed across multiple sectors in Corporate Banking.

In line with the consistent trend of previous years, the liquidity position of the Group remained sound, with the credit to deposit ratio being 93.4% as at 31 December 2018. Liquid assets which includes investments constituted 28.4% of the total assets as at 31 December 2018. The Bank continued to comfortably meet the various liquidity requirements set by the regulators. The advances to stable resources ratio calculated in accordance with the Central Bank of the UAE guidelines was circa 83% as at 31 December 2018, well within the regulatory ceiling of 100%. Other liquidity related regulatory norms like Eligible Liquid Assets ratio and the Liquidity Coverage ratio were also comfortably met.

The asset quality metrics were stable with the ratio of non-performing loans to gross loans and advances being 4.3% as at 31 December 2018 (31 December 2017: 4.3%). The loan loss coverage was 116.5% as at 31 December 2018 (31 December 2017: 97.1%). Ahead of regulatory requirements, the Group maintained provisions for Stage 1 and 2 accounts representing 1.7% of the credit risk weighted assets at the year-end.

In order to support the ongoing business activities, operating expenses increased in 2018 by 9% and were at AED 1,242 million for the year. The lower operating income impacted the cost to income ratio which was at 37.5% for 2018.

The return on average equity, excluding the Tier I capital notes, was at 7.0% for 2018 (2017: 9.8%) while the return on average assets was at 1.1% for 2018 (2017: 1.6%).

The capital position remained strong with the Basel III overall capital adequacy ratio and Tier I capital adequacy ratio being 18.9% and 17.7% respectively as at the year end. Both these ratios remain significantly above the minimum requirements set by the Central Bank of the UAE.

Dividend distribution

The Board of Directors is pleased to recommend to the shareholders of the Bank a distribution of cash dividend of 20% (AED 0.20 per share) amounting in aggregate to AED 550.3 million. This constitutes a dividend payout ratio of around 46%.

Merger

Towards end of January 2019, decision was taken for Union National Bank to merge with Abu Dhabi Commercial Bank and together to acquire Al Hilal Bank. This merger will create a preeminent financial services group, well positioned to support the economy. The merger is subject to the approvals of the shareholders and regulators.

Accolades and recognition

During 2018, the Bank was the recipient of various prestigious industry awards. Listed below are only some of the key recognitions conferred on the Bank during the course of the year.

- Most Employee-Focused CEO for UNB Group CEO at the GCC Investment & Development Awards by World Finance.
- Global Performance Excellence Award in World Class Category and ACE Team Competition Award for UNB by the Asia Pacific Quality Organisation.
- Excellence in Business Management and for being a successful leader for UNB CEO by the World Confederation of Businesses at The BIZZ Europe Awards 2018.
- Best Business Leader Award for UNB Group CEO and Customer Delight Award for UNB from the Middle East North Africa & Asia (MENAA) Award Organisation.
- Dubai Human Development Award by Business Excellence Centre Dubai Economy.
- Best Year of Giving Initiative and Pre-Event Marketing at Tawdheef Excellence Awards.
- Most Trusted Customer Service Banking Brand Award for UNB from the Global Brands Magazine.

Appreciations

On behalf of the Board of Directors, I would like to thank our valued customers for their continued patronage, the top management and the employees for their unstinted commitment and dedication and to various governmental bodies for their guidance and support. I wish to also acknowledge the contribution of the Central Bank of the UAE in regulating and supporting the UAE banking sector.

In conclusion, we express our gratitude to the Government of the UAE under the visionary leadership of His Highness Sheikh Khalifa Bin Zayed Al Nahyan, President of the UAE, Ruler of Abu Dhabi Emirate, His Highness Sheikh Mohammed Bin Rashid Al Maktoum, UAE Vice President, Prime Minister and Ruler of Dubai and His Highness Sheikh Mohammed Bin Zayed Al Nahyan, Abu Dhabi Crown Prince and Deputy Supreme Commander of the UAE Armed Forces as well as Their Highnesses, the Rulers of the various Emirates. Their continuing wisdom, assured leadership and progressive guidance all contribute to the bright outlook, security and opportunities that the United Arab Emirates and the Bank can look forward to.

Nahayan Mabarak Al Nahayan
Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

I am pleased to present the 2018 Review Report for Union National Bank (UNB) Group.

The global economy performed well during 2018 amid an environment of increasing interest rates in the US, tightening fiscal stimulus and trade negotiations. The UAE non-oil economy remained strong while oil prices stabilized in 2018; moreover the government announced few economic stimulus packages to further boost the economic growth. Value Added Tax was introduced by the Government to diversify its revenue base and has been implemented successfully by UNB on a timely basis.

UNB Group continued its measured growth in 2018, improving its net interest margin whilst maintaining sound liquidity, strong capital, prudent provisioning and stable asset quality metrics.

Towards the end of January 2019, each of the UNB Board and Abu Dhabi Commercial Bank Board agreed to merge and together to acquire Al Hilal Bank. The merged entity will create a preeminent financial services group - third largest banking group in the UAE and fifth largest in the GCC region, well positioned to support the local economy. The merger is subject to the approval of the shareholders, regulators and necessary consents.

Financial Review

The UNB Group recorded a profit of AED 1,186 million for the year 2018. The operating profit for the Group for 2018 was AED 2,070 million, lower by 17% compared to 2017.

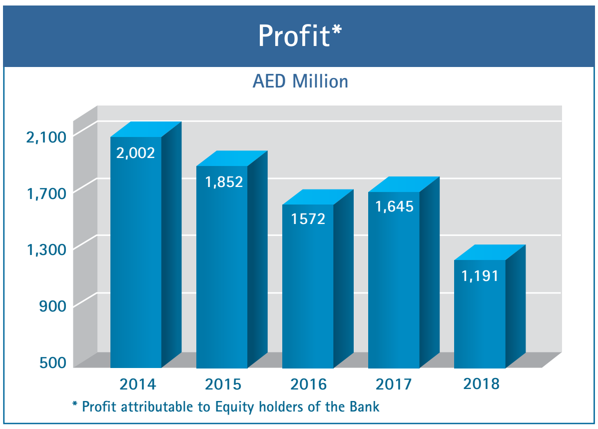
The 2018 operating income was lower by 9% at AED 3,312 million, impacted by a decrease in non-interest income that was partly offset by an increase in net interest income and net income from Islamic financing by 6% over the preceding year.

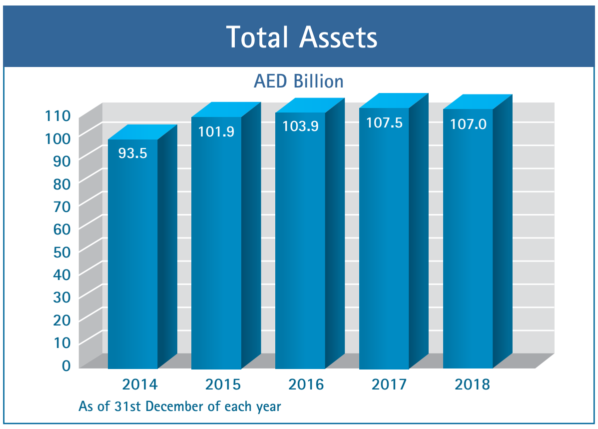
The net interest income and net income from Islamic financing for 2018 grew by 6% to AED 2,798 million as the Group continued to manage its resources efficiently leading to an improvement in net interest margin by 18 basis points to 2.75%.

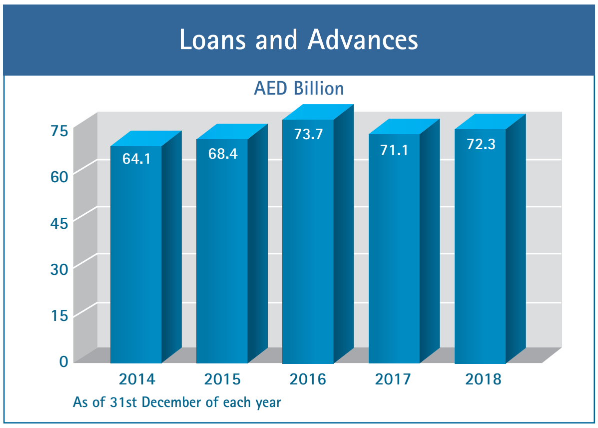
The non-interest income decreased in 2018 and was at AED 514 million. Lower fees and commission income driven by reduced business volumes in Consumer banking business, fair value loss on investment properties and lower gain on dealing in foreign currencies and derivatives adversely impacted the non-interest income during the year.

Net loans and advances were AED 72.3 billion as at 31 December 2018, higher by 2% as the Group grew its Corporate banking business on a prudent basis. Customers' deposits decreased by 2% in 2018 and were AED 77.4 billion as at 31 December 2018. During the fourth quarter of 2018, the Group fully repaid the syndicated loan of US$ 750 million from its own resources. The total assets of the UNB Group remained broadly unchanged at AED 107.0 billion as at 31 December 2018.

Various liquidity metrics remained sound with both Advances to Stable Resources ratio and the Eligible Liquid Assets ratio requirements set by the Central Bank of the UAE being comfortably met. Additionally, the Group remained fully compliant with the Liquidity Coverage ratio.







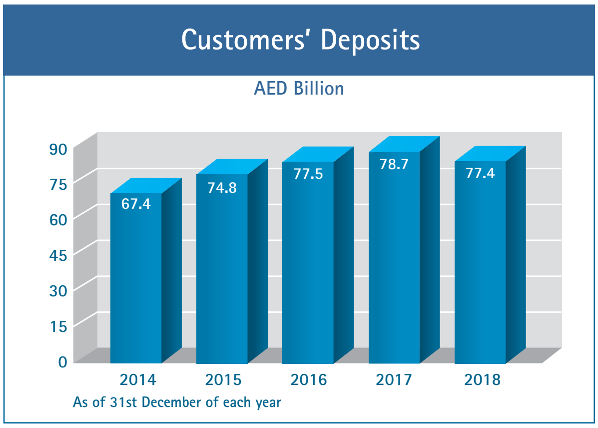
In order to support ongoing business activities, the operating expenses increased by 9% in 2018 and were AED 1,242 million for the year. Impacted by the lower operating income, the cost to income ratio rose to 37.5% in 2018.

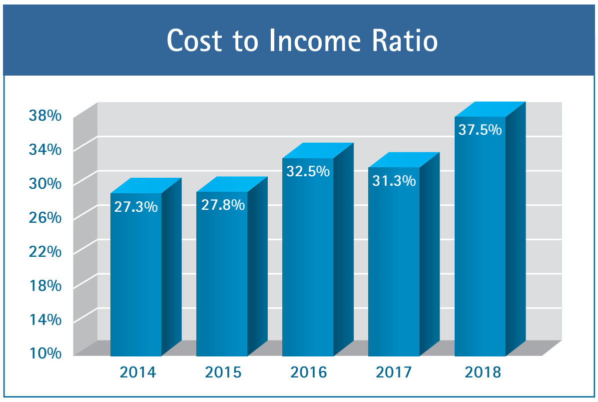
As at the year-end, the ratio of non-performing loans and advances to gross loans and advances was at 4.3% (31 December 2017: 4.3%) with improved loan loss coverage of 116.5% (31 December 2017: 97.1%). Adequate provisions were maintained in line with the IFRS 9 requirements, which was implemented by the Group effective 1 January 2018. Provisions relating to Stage 1 and Stage 2 accounts were at 1.7% of the overall credit risk weighted assets at the year-end, ahead of the regulatory requirements.

The return on average equity, excluding Tier 1 capital notes was 7.0% (2017: 9.8%) and the return on average assets was 1.1% (2017: 1.6%). The basic and diluted earnings per share for the year was AED 0.40 (2017: AED 0.57).

After fully adjusting for the effect of the proposed dividend distribution, the Group's capital position remained strong with the Overall capital adequacy ratio and Tier I capital adequacy ratio (both ratios as per Basel III) being 18.9% and 17.7% respectively at the year end.

The Board of Directors has recommended a cash dividend of 20% (AED 0.20 per share) of the paid-up share capital of the Bank subject to necessary approvals. The proposed dividend payout ratio for 2018 would be circa 46% (2017: circa 33%).

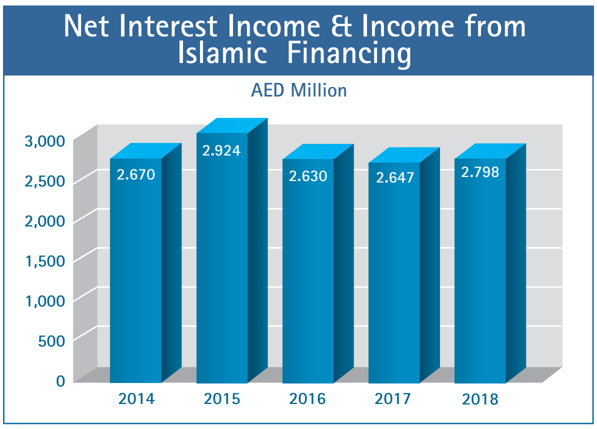


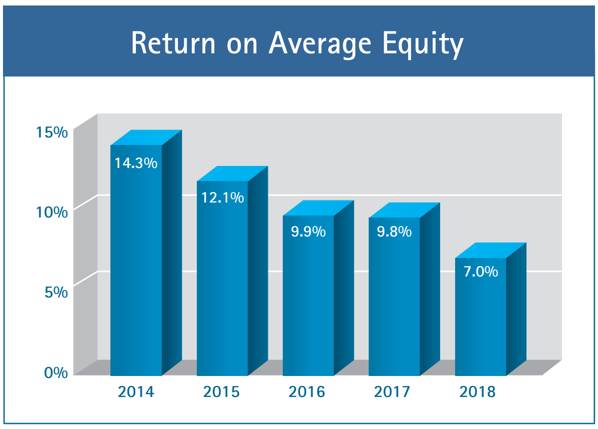


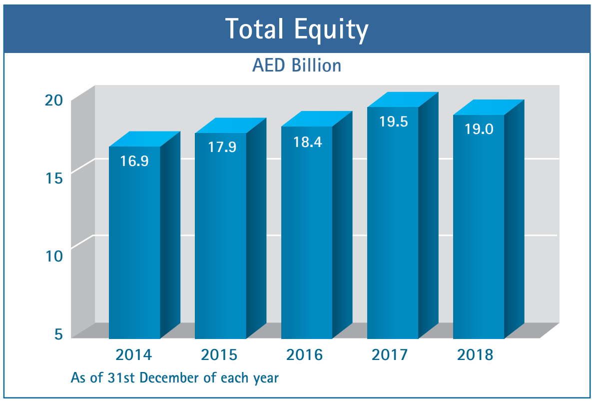
Corporate Banking

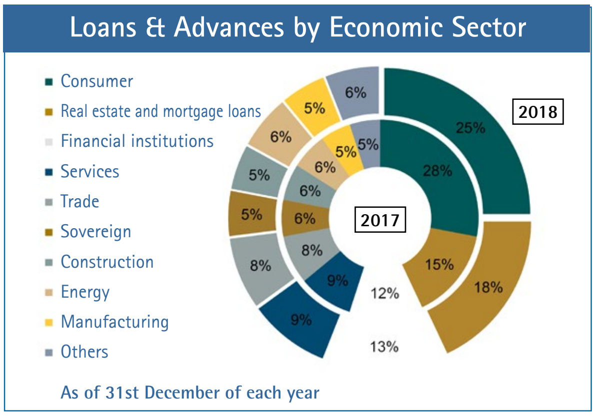
Corporate banking, a key segment of the UNB Group, contributed 64% of the UNB Group's profit in 2018. At the back of higher net interest income and net income from Islamic financing, the operating income for the Corporate banking segment at AED 1,166 million increased by 3% in 2018. Segmental assets increased by 5% in 2018 and were AED 40.1 billion as at the year-end. There was a marginal reduction in the segmental liabilities by 2% in 2018 and were AED 31.8 billion at the year-end.

The Corporate banking business maintained its earlier stated strategy to remain focused on prudent risk management and providing enhanced customer service while increasing the customer base on a selective basis. As a result of providing customized cash management solutions and unique offerings, important breakthroughs were achieved with a higher degree of involvement in banking operations









of selected GREs thereby strengthening long term relationships.

Consumer Banking

Consumer banking another key segment of the UNB Group, reported an operating income for 2018 of AED 1,154 million, lower by 19% due to a drop in non-interest income on account of reduced business volumes. The lower business volumes also impacted the net interest income and net income from Islamic financing as the Consumer banking assets registered a drop of 7% in 2018 to AED 18.8 billion as at 31 December 2018, while segmental liabilities were nominally lower by 2% during the year.

In 2018, Consumer banking launched multiple initiatives to further augment its portfolio of financial solutions. The initiatives ranged from introduction of new products and services to technology led Customer relationship management (CRM) and Digital initiatives.

Deposit product range was enhanced with a new offering of Accelerating Rate Deposit for 36 months to further complement the existing suite of innovative liability products. The distribution of Al Awwal Savings Certificates was increased by adding new exchange houses at which customers can buy the certificates directly.

The Group continued its focus to grow its Mortgage and Auto loans business. Variants under Mortgage loans were also launched to cater to the requirements of different customer segments. Online acquiring business was launched to assist existing and new corporate clients with online payment services.

Given UNB's consistent focus to enhance customer experience, Consumer banking has embarked on a digital journey with a design-thinking and human-centered approach. Continuous enhancements in our Internet and Mobile banking offerings have seen an increase of digital payments and transactions by more than 30% year-on-year. UNB is also among a select few organizations in the region to have successfully implemented a Voice Biometric System – UNB Voice Key, a secure biometric customer authentication system that uses individual unique voice-prints to verify and authenticate the identity of each customer.

Global Performance Excellence Award in World Class Category and ACE Team Competition Award for UNB by the Asia Pacific Quality Organisation.

In keeping with our commitment to engage with the customers across their end-to-end journey, we have completed the complex implementation of a CRM platform that should enable Consumer banking to offer personalized product and service propositions tailored to individual customer needs.

Private banking and Wealth management customer segment continuously expanded its market share by growing its existing as well as new clientele portfolio among the UAE, GCC and MENA region.

Islamic Banking

In 2018, excluding the fair value loss on investment properties, the segmental operating income was lower by 17% due to a reduction in fee income and net income from Islamic financing. Higher funding cost led to a decrease in the net profit margin resulting in a decline in net income from Islamic financing. The segmental profit after excluding the fair value loss on investment properties for the year was AED 141 million, lower by 32% over the previous year. The overall financial results of the segment were impacted by the fair value loss recognized on the investment properties as the real estate sector locally remained soft. The Islamic banking assets grew by 16% in 2018 to AED 11.0 billion as at 31 December 2018.

Islamic banking segment continues to offer end to end product offerings through a wide range of Shari'a compliant Islamic products and services to meet customer requirements.

Excellence in Business Management and for being a successful leader for UNB CEO by the World Confederation of Businesses at The BIZZ Europe Awards 2018.

Al Nisr Al Arabi Award for UNB CEO for Excellence in Public Administration by the Arab Organisation for Social Responsibility.

Treasury and Investment Banking

The segmental operating income at AED 491 million, was up by 42% in 2018 over the preceding year. The segmental operating profit in 2018 was higher by 52% at AED 407 million led by an increase in net interest income and net income from Islamic financing by 89%. The increase in the net interest income and net income from Islamic financing was mainly due to enhanced asset and liability management by appropriately positioning the Balance Sheet. The Investment portfolio has been geared towards optimizing the Group's Balance Sheet strengths and returns. Expanded activity of the repo desk further facilitated the efficient deployment of funds as also meeting the regulatory norms while maximizing returns.

During 2018, Union National Bank participated in over twenty-five new syndicated loans for both corporate and financial institutions spread over eight different jurisdictions. The Bank acted as mandated lead arranger in many of these transactions. The Bank has also acted as the facility and/or security agent in important deals for various corporates. The Group continued to selectively buy secondary market assets and risk participate with other financial institutions in un-funded trade transactions globally and regionally.

Systems and Improvements

During the year the emphasis was on further improving IT Service Delivery whilst focusing on digitization of various services impacting both customers as well as the staff. UNB has continually enhanced its Information Technology infrastructure to remain at par with the ever changing technology eco system to ensure meeting stringent and highly customized business demands for product development, customer service and regulatory requirements. UNB also maintained state of the art data and system security infrastructure to provide high level of security at all levels to our customers and other stakeholders.

In 2018, UNB implemented two major customer focused systems namely Host to Host system to cater to the growing demand of automation of business to business transactions for our corporate customers and Customer Relationship Management system to enhance retail customer service management, promotions and offers management and mobile sales, marketing and services.

UNB successfully obtained recertification of ISO 27001 Certification for Information Security Management System (ISMS), ISO SMS 20000 Certification for Information Technology Service Management (ITSM) and PCI DSS compliance certification.

Ratings

The Bank has consistent ratings from all the rating agencies that rate the Bank. The ratings as at the end of 2018 were:

- Moody's: Bank deposits: A1 / P-1;
- Fitch: A+ Long-term IDR and F1 Short-term IDR;
- Capital Intelligence: A+ Foreign Currency Long-term and A1 Foreign Currency Short-term

Recognition and Corporate Social Responsibility

Over the years, it has been a matter of prestige and honor for the Bank to be widely recognized and conferred with a multitude of accolades by industry leading bodies and associations, both internationally and locally. Listed below are some of the key awards and recognition bestowed on the Bank during 2018:

Dubai Human Development Award by Business Excellence Centre Dubai Economy.

Gold Medal for Social Responsibility by the Arab Organisation for Social Responsibility and UAE Excellence Award Academy.

Most Employee-Focused CEO for UNB Group CEO at the GCC Investment & Development Awards by World Finance.

Outstanding Employee Engagement Strategy at the GCC Investment & Development Awards by World Finance.

Best HR Transformation and Change Management Strategy at Future Workplace Awards.

Best Business Leader Award for UNB Group CEO and Customer Delight Award for UNB from the Middle East North Africa & Asia Award Organisation.

'Triumph' Business Excellence Award for UNB and World Leader in Finance Award for UNB Group CEO from World Confederation of Businesses at BIZZ AMEA Award 2018.

Happiness Champion of the Year Award at the Service Excellence and Customer Happiness Week.

Best Year of Giving Initiative and Pre-Event Marketing at Tawdheef Excellence Awards.

UNB won the Dubai Chamber CSR Label for the third consecutive year. Most Trusted Customer Service Banking Brand Award for UNB from the Global Brands Magazine.

UNB continues to actively support Corporate Social Responsibility initiatives across various categories with the objective of general betterment of the society and communities where we operate in. Workplace related initiatives continue to be undertaken to drive employee awareness and participation, ensuring that employees play a crucial role as a responsible citizen in the society.

Conclusion

I take this opportunity to thank our employees for their unequivocal dedication and commitment and our shareholders and customers for their confidence in our ability to create value for them. I would also like to thank H.H. Sheikh Nahayan Mabarak Al Nahayan, the Chairman and the Board of Directors for its direction and stewardship and the various Government agencies for their guidance and support.

Mohammad Nasr Abdeen
Chief Executive Officer

CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2018

Introduction

The Board and the Senior Management are committed to judicious and entrepreneurial management to ensure sustainable long-term success of the Bank. The Bank's corporate governance practices aim at maintaining good operational performance and financial success supported through strong internal control system, transparent disclosures and accountability in decision making processes.

The Union National Bank (the Bank) adopts a holistic approach to corporate governance with the aim of building the Bank as the best-in-class for the local banking industry and to ensure its financial solidity and resiliency.

The Board of Directors and Senior Management endeavors to ensure that the approach to corporate governance of the Bank and its subsidiaries (UNB Group) are in line with leading international practices and regulatory guidelines promulgated by the Securities and Commodities Authority and the Central Bank of the United Arab Emirates (Central Bank) in true spirit.

The Bank has established robust corporate governance framework covering policies, processes, organizational structure, control environment, with well-defined roles, responsibilities and compensation for the Board and the Senior Management. Integrity and ethical values form the bedrock of the Bank's governance culture.

The Bank's governance guidelines are built upon the values of ethics and integrity through responsible and value-driven management systems and control. The principal elements of the Bank's governance principles are: good relationship with the shareholders; professional cooperation between the management and the board; fair performance management process; prudent risk management and compliance framework; and comprehensive audit assurance process.

The Bank's governance standards adopt international best practices and the governance operations are compliant with the applicable provisions of the Federal Law 2 of 2015, extant regulations of the Central Bank of the UAE, as well as regulatory requirements in other operating jurisdictions.

The Bank's governance structure facilitates effective implementation of its corporate governance standards by adopting an enterprise-wide integrated 'governance-risk-compliance' framework and ensures responsible management and control of the UNB Group, with a focus on sustainable value creation.

UNB Group believes that strong capital base is of paramount importance to maintain financial solidity and play the responsible role in the UAE financial system amidst the dynamic economic and geopolitical circumstances in the globally interconnected environment.

The Bank's governance culture is built on the principles of responsibility, accountability, transparency, sustainability and quality embedded with duty of care, confidentiality and loyalty. The Bank's governance principles are delineated in the corporate standards manual which in essence, sets the tone and standards for the organization's business practices. The Board and the Senior Management believe in 'fit and proper' principle and recognize that good corporate governance is the principal attribute to promote and sustain the Bank's objective of becoming the 'first and best bank of choice for all stakeholders'.

The Bank's governance system underpins: prudent decision making on the basis of adequate and appropriate information avoiding conflict of interest, effective communication between the Board and the management, fair compensation policy with sustainable long term focus, strong relationship with the shareholders, corporate social responsibility and adherence to the applicable laws and regulations in all its operating jurisdictions.

Consistent with its disclosure policy, the Bank publishes financial and non-financial information under different sections of the annual report for the benefit of the shareholders and other stakeholders, in line with the Basel Committee disclosure requirements mandated by the Central Bank and in accordance with the International Financial Reporting Standards.

The Bank has been conferred with leading international awards and accolades in recognition of its governance culture, business practices, quality standards and brand image which are mentioned elsewhere in the Annual Report.

Board composition and election

The Board of Directors of the Bank is responsible for the overall governance of the Bank. Key responsibilities of the Board include providing strategic direction, guidance and supervision, setting up Vision and Mission objectives, approving medium and long-term business strategies, ensuring robust control functions and reviewing the financial and non-financial performance of the Bank and Senior Management on an ongoing basis.

In accordance with the provisions of the Articles of Association, the overall supervision and control of the Bank is vested with the Board of Directors consisting of not less than five and not more than eleven Directors, majority of whom shall be UAE nationals. The Directors are appointed in the Ordinary General Meeting for a term of three years and are eligible for re-election upon completion of their term.

As at the end of December 2018, UNB's Board comprised of nine members, elected by the shareholders in the Annual General Meeting held on March 11, 2018 for a three year term, in accordance with the approvals in the above mentioned Annual General Meeting.

The Directors have diverse range of experience from different backgrounds and collectively provide required expertise and skills to effectively provide strategic directions and control over the affairs of the Bank in the long term interest of all the stakeholders.

Directors' independence disclosure

In the Board's composition, seven members represent the strategic investors (viz. five representing the Abu Dhabi

CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2018 *(continued)*

Investment Council and two representing the Investment Corporation of Dubai).

All the Directors are non-executive. While determining independence principle, the Directors nominated by the strategic shareholders but otherwise conform to the independence criteria stipulated by the Securities and Commodities Authority in their individual capacity, have been reckoned as independent.

Board meetings

Aspects relating to the proceedings of the Board meetings are defined in the Articles of Association. Board meetings are valid only when attended by majority of Directors. A Director may appoint another director to represent and vote for him in his absence and in such situations any Director may not have more than one proxy. Board decisions are made by majority of votes of those present or represented in the meeting. In the case of equality of votes, the Chairman has the casting vote. The dissenting voice of a Board Member, if any, is recorded in the minutes of the Board meeting.

Director's fee

The Bank adopts fixed compensation policy for the board members.

As per the provision of the Articles of Association, the Directors' remuneration, after providing for legal reserve and setting aside 5 % as first share of profit to the shareholders, should not exceed 10 % of remaining net profit.

The Board Committees

The Board is assisted by five board sub-committees viz. Audit Committee, Remedial Assets Committee, Risk Committee, Nomination & Remuneration Committee and Credit Committee to perform certain delegated responsibilities as delineated in their respective charters.

The Board ensures that directors with appropriate balance of skills, knowledge and independence are appointed to the Committees.

Board Audit Committee

The Board Audit Committee consists of three members. This Committee assists the Board in exercising due care and diligence while discharging their monitoring responsibilities in respect of internal controls, financial reporting, risk management, compliance with internal policies, laws, external regulations and findings of examination by the regulatory bodies and appointing External Auditors. The Audit Committee periodically reviews the internal control framework to ensure adequacy and reasonableness of the Bank's internal control effectiveness.

Board Remedial Asset Committee

The Board Remedial Asset Committee consists of three Board members. This Committee assists the Board in exercising due care and diligence while discharging their responsibilities in respect of establishing and reviewing provisioning policy, assessing specific provisions for individual credit facilities and proprietary investments and monitoring the recoveries.

Board Nomination & Remuneration Committee

The Board Nomination & Remuneration Committee consists of three Board members. The committee assists the Board on matters related to the composition of the Board, performance assessment and succession planning for individual Directors and Senior Management and their remuneration policy.

Board Risk Committee

The Board Risk Committee consists of three Board members. The Committee assists the Board in establishing governance framework, formulating risk appetite policies, fulfilling its risk oversight responsibilities, assessing stress testing results and approving risk disclosures.

Board Credit Committee

The Board Credit Committee consists of three Board members. The Committee assists the Board in fulfilling its credit approval responsibility in accordance with the delegated authority.

Governance performance

The details of the Board and Board committees, meetings held and attendance are provided in the appendix, which form the integral part of this report.

The agenda for the board meetings included forward looking strategic issues with a balance of performance reporting review, approval of policies and other operating decisions. Board and its committee discussions were supported by relevant and focused papers distributed in advance of the meetings.

Performance Assessment

The Board carried out its performance self-assessment for the fiscal 2018 in accordance with the framework outlined in the corporate standards manual of the Bank. Based on the assessment, the Board of Directors opine that its overall activities and oversight are proportionate to the risk complexities of the Bank's business and reasonable to take care of the stakeholders' interest.

Insider trading restriction

The Bank considers that the Directors, the CEO, Senior Management, Deputy Heads of Divisions and other identified staff, by virtue of their functional positions may have privileged access to price sensitive material information about the Bank. Such persons are identified and treated as 'Insiders' and market authorities are advised accordingly.

As per the Bank's disclosure policy, insiders are prohibited from trading in the securities of the Bank fifteen days prior to the end of financial reporting period (quarterly/half-yearly/annual) till the disclosure to the public/market authorities and also ten working days prior to the declaration of any substantive information that may affect the Bank's share price.

Notification and periodic reminders regarding commencement of black-out period under 'insider-trading restriction' is issued to all the staff through the Bank's intranet to ensure compliance.

During the fiscal 2018, the Bank was fully compliant to Securities and Commodities Authority rules and regulations.

Role of H.H. The Chairman, CEO and management committees

The Bank's Corporate Standards Manual delineates the segregation of responsibilities between the roles of the Chairman and the CEO. The Chairman is responsible for the leadership of the Board ensuring that the Board members are collectively discharging the responsibilities effectively. The CEO has the functional responsibility for the day to day management of the Bank in accordance with the strategic direction and guidance within the delegated authorities and policies approved by the Board.

The Board has delegated certain authorities to the CEO and management committees whose responsibilities are set out in their respective charters. The CEO maintains close liaison with the work of the management committees.

Management committees chaired by the CEO are:

- Assets Liability Committee
- Crisis Management Team
- Head Office Credit Committee
- Investment Committee
- Leadership Forum
- Remedial Assets Committee
- Risk Management Committee
- Senior Executive Forum

Internal Control Framework

The Bank's internal control environment remains effective under the collective oversight of the Senior Management, Internal Audit, Compliance & Enterprise Risk and other internal control functions. The Bank has established robust Internal Capital Adequacy Assessment Process (ICAAP) and conducts stress testing on a half-yearly basis based on prudent risk policies approved by the Board. The Bank's ICAAP program includes assessing the overall risk profile, determining material risks, undertaking stress testing to shock scenarios that are proportionate to risk complexities of the Bank and allocating the capital under Basel Pillar 2 to ensure financial solidity and long term sustainability.

During 2018 the Bank also carried out stress testing exercise on the Bank's static balance sheet position as at the end of 2017 in accordance with the assumptions and guidelines stipulated by the Central Bank. The results derived from assessment indicate that the Bank's loss absorption capacity and solvency strength remains intact and the stress-scenario-capital-adequacy-ratio remains well above the CBUAE defined hurdle rate.

Based on the overall assessment, it may be noted that the Bank maintains adequate capital to support future business growth with sufficient buffer to overcome any systemic risks.

Risk Management and Compliance

The Bank's risk culture is built on prudent risk management principles with continual improvement towards strengthening internal control framework and effectively manage risk. The Chief Risk Officer has direct access, and functions as the secretary, to the Board Risk Committee and reports to the Chief Executive Officer. The Head of Compliance Department is designated as the Compliance Officer and reports to the Chief Risk Officer.

The Bank has implemented the standardised approach under International Convergence of Capital Measurement and Capital Standards framework (more commonly called the Basel accord) as implemented by the Central Bank. From liquidity perspective, the Bank is adopting the CBUAE interim Basel III liquidity ratios.

Fraud Risks & Cyber Security

The Bank adopts zero tolerance towards fraud risks and undertakes robust monitoring, assessment and countering measures to combat cybercrime, information security and fraud risk threats.

The Bank adopts robust multi-layer security architecture with latest and advanced technology security solutions which remain current to manage the risks and addressing dynamically emerging cyber threats.

Further, the Bank has established cyber-security incident-management program, which is periodically tested to ensure effective operational resilience towards any potential threat vulnerability.

The Bank remains compliant to leading international standards on information security and adopts continuing improvements towards ensuring evolving regulations and guidelines.

During the fiscal 2018, the Bank did not encounter any material fraud risk incidents or cyber security breaches.

Business Continuity

The Bank adopts robust business continuity management framework and disaster recovery measures to be resilient and manage any business disruption threats. The Bank's business continuity management systems are compliant to leading international standards. The business continuity and disaster recovery program are periodically tested to ensure and assure the operational resilience.

Customer Care

The Bank practices fair customer care policy and adopts balanced approach to protect customers' interest and preserve the Bank's reputation. As at the end of fiscal 2018, material customer disputes and/or complaints were nil.

Accountability

During the fiscal 2018, the Board, the CEO and the Senior Management provided a balanced and true assessment of Bank's position and its prospects to all the stakeholders and ensured that any and all material information were promptly disclosed to the market in a fair and accurate way.

Statutory Auditors

M/s Deloitte & Touche (M.E.) were re-appointed as the Statutory Auditors for the year 2018 by the shareholders in the Annual General Meeting held on March 11, 2018. The appointment of the statutory auditors was in accordance with the provisions of Articles of Association and in conformance with the Statutory Auditors Appointment Rules (SAAR) promulgated by the Abu Dhabi Accountability Authority.

M/s Deloitte & Touche (M.E.) did not provide any other material consultative or administrative service to the Bank during the year that would conflict with the independence principle.

Major shareholders of UNB

The shareholders holding more than five percent of the share capital of the Bank as at the end of 31 December 2018 are provided below:

- Abu Dhabi Investment Council - 50.01 %
- Investment Corporation of Dubai - 10.00 %

In exercising their rights as shareholders, the major shareholders are subject to applicable corporate laws within the UAE. The remaining 39.99 % of the shares are held by the general public and are publicly traded at the ADX. UNB is the only bank in the UAE in which the Governments of both Abu Dhabi and Dubai have significant shareholdings.

Conclusion

The Board of Directors and the Senior Management believe that the Bank's governance practices are appropriately designed to serve and safeguard the interests of the various stakeholders and sustainably enhance shareholders' value.

Nahayan Mabarak Al Nahayan
Chairman

CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2018 *(continued)*

Annexure

Dividend Distribution

	2018	2017	2016	2015	2014
Cash Dividend	20%	20%	20%	20%	25%
Stock Dividend	-	-	-	-	-

Details on UNB's share price as at the end of 31 Dec 2018

	Current market price	Book value	Price to Book value	Earnings per share (EPS)	Price to Earnings (PE)	Dividend yield
UNB Share price details (face value AED 1 per share)	4.69	6.11	0.77	0.4	11.7	4.3

Union National Bank - Share Price Movement Summary
(01-Jan-2018 - 31-Dec-2018)

(Share Price in AED)

UNB Share Price Summary (as per closing price published by Bloomberg)	
Closing Price (As on 31-Dec-2018)	4.69
Highest Price during the year	5.09
Lowest Price during the year	3.36
Median Price during the year	3.90
Total number of trades during the year	8,894
Total volume trades during the year	337,622,163
Total traded value during the year	AED 1,468,819,666

UNB Share Price Monthly Summary (as per closing price published by Bloomberg)			
Month	Average Price	Highest Price	Lowest Price
Jan	3.95	4.09	3.85
Feb	3.97	4.05	3.82
Mar	3.79	3.98	3.52
Apr	3.69	3.81	3.53
May	3.63	3.70	3.50
Jun	3.63	3.72	3.58
Jul	3.56	3.65	3.36
Aug	3.67	3.84	3.48
Sep	4.81	5.09	3.70
Oct	4.71	4.97	4.47
Nov	4.81	4.90	4.60
Dec	4.72	4.90	4.60

UNB Share Closing Price Vs Abu Dhabi Security Market Index (ADSMI)

UNB Share Closing Price Vs Abu Dhabi Security Market Bank Index (ADBFI)

CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2018 *(continued)*

Composition and Structure of the Board of Directors - 2018

Sl. No.	Name of the Board Member	Representative of	Position in the Board	Membership capacity in the Board[1]	Current Membership in Board committees				
					Audit Committee	Remedial Asset Committee	Risk Committee	Credit Committee	Nomination & Remuneration Committee
1	H.H. Sheikh Nahayan Mabarak Al Nahayan	Abu Dhabi Investment Council	Chairman	NEX	-	-	-	-	-
2	H.E. Mohamed Dhaen Mahasoon Al Hamli	Abu Dhabi Investment Council	Vice Chairman	NEX	Chairman	-	Chairman	-	-
3	H.E. Mattar Mohamed Ahmed Al Tayer	Investment Corporation of Dubai	Member	NEX & IND	-	-	-	-	Chairman
4	Mr. Khalifa Sultan Ahmed Sultan Al Suwaidi	Abu Dhabi Investment Council	Member	NEX & IND	-	Chairman	-	Chairman	-
5	Mr. Yousef Abdulaziz Ahmed Abdulla Al Harmoodi	Abu Dhabi Investment Council	Member	NEX & IND	-	Member	Member	Member	-
6	Mr. Abdulwahed Mohamed Sharif Asad Al Fahim	Investment Corporation of Dubai	Member	NEX & IND	-	-	-	-	Member
7	Mr. Ahmed Jasim Yousif Naser Al Zaabi	Abu Dhabi Investment Council	Member	NEX	Member	Member	-	Member	-
8	Mr. Hussain Jasim Naser Mohamed Al Nowais (Member since March 2018)	Minority shareholders	Member	NEX	Member	-	Member	-	-
9	Mr. Khalfan Saeed Jumaa Al Kaabi (Member since March 2018)	Minority shareholders	Member	NEX & IND	-	-	-	-	Member
10	Mr. Rashed Darwish Ahmed Saif Al Ketbi (Member until March 2018)	Minority shareholders	Member	NEX	-	-	Member	Member	-

1) Non-executive (NEX / Independent (IND)

CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2018 *(continued)*

Board meeting attendance - 2018

Number of Board meetings held during 2018 - 6

	1st meeting	2nd meeting	3rd meeting	4th meeting	5th meeting	6th meeting
Meeting Dates	06-Feb-18	12-May-18	15-Jul-18	10-Sep-18	30-Oct-18	17-Dec-18

Sl. No.	Name of the Board Member	Position in the Board	Number of meetings held during the tenure of Membership	Number of meetings attended
1	H.H. Sheikh Nahayan Mabarak Al Nahayan	Chairman	6	5
2	H.E. Mohamed Dhaen Mahasoon Al Hamli	Vice Chairman	6	6
3	H.E. Mattar Mohamed Ahmed Al Tayer	Member	6	6
4	Mr. Khalifa Sultan Ahmed Sultan Al Suwaidi	Member	6	6
5	Mr. Yousef Abdulaziz Ahmed Abdulla Al Harmoodi	Member	6	6
6	Mr. Abdulwahed Mohamed Sharif Asad Al Fahim	Member	6	6
7	Mr. Ahmed Jasim Yousif Naser Al Zaabi	Member	6	6
8	Mr. Hussain Jasim Naser Mohamed Al Nowais	Member	5	4 (1 by proxy)
9	Mr. Khalfan Saeed Jumaa Al Kaabi	Member	5	4
10	Mr. Rashed Darwish Ahmed Saif Al Ketbi (Member until March 2018)	Member	1	1

Board Audit Committee meeting attendance - 2018

Number of Board Audit Committee meetings held during 2018 - 5

	1st meeting	2nd meeting	3rd meeting	4th meeting	5th meeting
Meeting Dates	28-Jan-18	12-May-18	15-Jul-18	30-Oct-18	28-Nov-18

Sl. No.	Name of the Board Member	Position	Number of meetings held during the tenure of Membership	Number of meetings attended
	Current			
1	H.E. Mohamed Dhaen Mahasoon Al Hamli (from May 2018 till date)	Chairman	4	4
2	Mr. Hussain Jasim Naser Mohamed Al Nowais (from May 2018 till date)	Member	4	1
3	Mr. Ahmed Jasim Yousif Naser Al Zaabi (from Jan 2018 till date)	Member	5	5
	Previous			
4	Mr. Khalifa Sultan Ahmed Sultan Al Suwaidi (from Jan - Apr 2018)	Chairman	1	1
5	H.E. Mattar Mohamed Ahmed Al Tayer (from Jan - Apr 2018)	Member	1	-

CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2018 *(continued)*

Board Remedial Asset Committee meeting attendance - 2018

Number of Board Remedial Asset Committee meetings held during 2018 – 4

	1st meeting	2nd meeting	3rd meeting	4th meeting
Meeting Dates	08-Jan-18	12-Apr-18	17-Jul-18	23-Oct-18

Sl. No.	Name of the Board Member	Position	Number of meetings held during the tenure of Membership	Number of meetings attended
	Current			
1	Mr. Khalifa Sultan Ahmed Sultan Al Suwaidi (from May 2018 till date)	Chairman	2	2
2	Mr. Yousef Abdulaziz Ahmed Abdulla Al Harmoodi (from Jan 2018 till date)	Member	4	4
3	Mr. Ahmed Jasim Yousif Naser Al Zaabi (from May 2018 till date)	Member	2	2
	Previous			
4	H.E. Mohamed Dhaen Mahasoon Al Hamli (from Jan - Apr 2018)	Chairman	2	2
5	H.E. Mattar Mohamed Ahmed Al Tayer (from Jan - Apr 2018)	Member	2	0

Board Risk Committee meeting attendance - 2018

Number of Board Risk Committee meetings held during 2018 – 3

	1st meeting	2nd meeting	3rd meeting
Meeting Dates	27-Feb-18	13-Jun-18	30-Oct-18

Sl. No.	Name of the Board Member	Position	Number of meetings held during the tenure of Membership	Number of meetings attended
	Current			
1	H.E. Mohamed Dhaen Mahasoon Al Hamli (from May 2018 till date)	Chairman	2	2
2	Mr. Hussain Jasim Naser Mohamed Al Nowais (from May 2018 till date)	Member	2	-
3	Mr. Yousef Abdulaziz Ahmed Abdulla Al Harmoodi (from May 2018 till date)	Member	2	2
	Previous			
4	Mr. Khalifa Sultan Ahmed Sultan Al Suwaidi (from Jan - Apr 2018)	Chairman	1	1
5	Mr. Rashed Darwish Ahmed Saif Al Ketbi (from Jan - Mar 2018)	Member	1	1
6	Mr. Ahmed Jasim Yousif Naser Al Zaabi (from Jan - Apr 2018)	Member	1	1

CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2018 *(continued)*

Board Credit Committee meeting attendance - 2018

Number of Board Credit Committee meetings held during 2018 - 22

Sl. No.	Name of the Board Member	Position	Number of meetings held during the tenure of Membership	Number of meetings attended
	Current			
1	Mr. Khalifa Sultan Ahmed Sultan Al Suwaidi (Chairman from 13 May 2018 till date) (Member from Jan - 02 May 2018)	Chairman	22	18
2	Mr. Yousef Abdulaziz Ahmed Abdulla Al Harmoodi (from Jan 2018 till date)	Member	22	20
3	Mr. Ahmed Jasim Yousif Naser Al Zaabi (from 13 May 2018 till date)	Member	13	9
	Previous			
4	H.E. Mohamed Dhaen Mahasoon Al Hamli (from Jan - 02 May 2018)	Chairman	9	9
5	Mr. Rashed Darwish Ahmed Saif Al Ketbi (from Jan - 01 Mar 2018)	Member	6	4

CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2018 *(continued)*

Board Nomination & Remuneration Committee meeting attendance - 2018

Number of Board Nomination & Remuneration Committee meetings held during 2018 - 1

	1st meeting
Meeting Dates	25-Feb-2018

Sl. No.	Name of the Board Member	Position	Number of meetings held during the tenure of Membership	Number of meetings attended
1	H.E. Mattar Mohamed Ahmed Al Tayer (from May 2018 till date)	Chairman	-	-
2	Mr. Abdulwahed Mohamed Sharif Asad Al Fahim (from Jan 2018 till date)	Member	1	1
3	Mr. Khalfan Saeed Jumaa Al Kaabi (from May 2018 till date)	Member	-	-

Deloitte.

INDEPENDENT AUDITOR'S REPORT

Deloitte & Touche (M.E.)
Level 11, Al Sila Tower
Abu Dhabi Global Market Square
Al Maryah Island
P.O.Box 990
Abu Dhabi
United Arab Emirates

The Shareholders
Union National Bank – Public Joint Stock Company
Abu Dhabi - United Arab Emirates

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Union National Bank PJSC, Abu Dhabi (the "Bank") and its subsidiaries (collectively referred to as the "Group") which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional* Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Group's consolidated 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How the matter was addressed in our audit
Measurement of expected credit losses for loans and advances in accordance with IFRS 9	
The audit was focused on the appropriateness of loan loss provisions due to the materiality of loans and advances for the Group and the level of judgement and estimation uncertainty involved. Further, there were significant changes in the accounting policies from the adoption of IFRS 9 as at 1 January 2018 and adjustments to amounts previously recognised in the consolidated financial statements. The key change arising is that the Group's credit losses are now based on expected rather than on incurred losses which, among others, requires a demanding assessment whether the credit risk of the financial asset has significantly increased since its initial recognition.	We obtained a detailed understanding of the Group's business processes and assessed the design and tested the operating effectiveness of the controls over individual and collective expected loss calculations including entity level controls adopted by the Group for accounting, processes and systems under the new accounting standard. We evaluated the appropriateness of key technical decisions, judgements and accounting policy elections made by the Group to ensure compliance with IFRS 9 impairment requirements.

Anis Sadek (521), Cynthia Corby (995), Georges Najem (809), Mohammad Khamees Al Tah (717), Musa Ramahi (872), Mutasem Dajani (726), Rama Padmanaba Archarya (701) and Samir Mabdak (386) are registered practicing auditors with the UAE Ministry of Economy.

INDEPENDENT AUDITOR'S REPORT

Key audit matters (continued)

Key audit matters	How the matter was addressed in our audit
Measurement of expected credit losses for loans and advances in accordance with IFRS 9 (continued)	
The Group was required to develop new processes, systems, methodologies and complex statistical models for the calculation and measurement of Expected Credit Losses (ECL). There was the risk that inadequate data and models would make it difficult to develop models which were sufficient for IFRS 9 impairment requirements. The identification of exposures that are deteriorating, the assessment of evidence of credit-impairment and the determination of expected losses are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected macro-economic developments and future cash flows, observable market prices and value of collateral. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions. The portfolios which give rise to the greatest estimation uncertainty are typically those with individually significant exposures that are unsecured or are subject to potential cash flow or collateral shortfalls as well as portfolios where lifetime expected credit losses were derived based on collective assessments as those are most sensitive to model adjustments. The Group's individual provisions are also subjective as a result of judgements exercised and the relatively limited amount of data points available about historical losses and derived future expected cash flows. These loans are individually monitored and the assessment of provisions for these loans involves substantial knowledge of each borrower. Further, associated risk management disclosure were complex and dependent on high quality data. As permitted by the transitional provisions of IFRS 9, the Group elected not to restate the comparative figures and recorded an adjustment of AED 906 million to its opening retained earnings as of 1 January 2018. Due to the significance of this adjustment, and the overall balance of loans and advances (AED 72,331 million or 67.6% of total assets) and the related estimation uncertainty, we considered this area as key audit matter. The Group's accounting policy, critical judgements, transitional and credit risk management disclosures are included in Notes 2, 3.1, 14 and 36 to the consolidated financial statements.	We examined the soundness of the expected loss models by involving our internal experts and tested the mathematical accuracy of the ECL models by performing recalculations on a sample basis for each model. We furthermore verified the accuracy, consistency and quality of various inputs and assumptions including the reasonableness of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) used within the Group's models. We also assessed the reasonableness of forward looking information incorporated into the impairment calculations. With the support of our IT audit specialists, we furthermore considered the quality of underlying systems, tested IT controls related to the credit impairment process and verified the integrity of data used as input to the models. Our approach also included substantive audit procedures: For a selection of individual exposures, we performed a detailed credit review and challenged the Group's staging and impairment allowance calculation. We applied professional judgement in selecting those exposures for our detailed inspection, placing an emphasis on exposures that were potentially more sensitive to developing economic trends. For those selected individual exposures, we tested the assumptions underlying the identification of significant increase in credit risk (SICR) and accuracy of identification of credit-impairment status. In regard to the quantification of expected credit losses, the examination focused on forecasts of cash flows, valuation of underlying collateral and estimates of recovery on default. Finally, we assessed whether the disclosures in the financial statements appropriately reflect the Group's exposure to credit risk and are in compliance with IFRS.

INDEPENDENT AUDITOR'S REPORT *(continued)*

Key audit matters *(continued)*

Key audit matters	How the matter was addressed in our audit

Valuation of securities and derivatives	
Financial instruments that are measured at fair value are significant for the financial statements of the Group, such as investment securities, trading positions and derivatives (17.2% of total assets). For financial instruments that are actively traded and for which quoted market prices are available, there is high objectivity in the determination of fair values (level 1 instruments). However, when observable market prices or market parameters are not available the fair value is subject to significant estimation uncertainty. The fair value of those financial instruments (level 2 and level 3 financial assets of AED 2,409 million) is determined through the application of valuation techniques which often involves the exercise of judgement by the Group and the use of assumptions and estimates. The valuation of those instruments is considered a key audit matter due to the related estimation uncertainty. The Group's accounting policy and fair value disclosures are included in Notes 2, 3.5 and 31 to the consolidated financial statements.	We assessed the design and tested the operating effectiveness of the Group's key controls supporting the identification, measurement and oversight of valuation risk of financial instruments. We examined the Group's independent price verification processes and approved processes over data feeds and other inputs to valuation and the Group's governance and reporting processes and controls. For samples selected, we compared fair values with observable externally available market data. We determined that we could rely on the key controls operated by the Group for the purposes of our audit.

Valuation of investment property	
The Group carries investment properties at fair value (AED 1,870 million) and its measurement is inherently subjective due to the individual nature and location of each property which considerably influences the expected future rental income. The result of the revaluation is a loss of AED 232 million at the end of this reporting period. The valuations are carried out by third party valuers in accordance with RICS Valuation - Professional Standards and IFRS 13 and take into account, where available, evidence of comparable market transactions. The Group's accounting policy and critical judgements are disclosed in Note 2(g) and 2(d) to the consolidated financial statements.	We assessed the competence, capabilities and objectivity of the third party valuers, verified their qualifications, and discussed the scope of their work. We challenged the valuation methodologies and tested the data inputs underpinning the valuation for a sample of properties. We have also involved our subject matter experts to assess key assumptions used and ensured their accuracy, completeness and reliability. We also compared a sample of the valuations to our expectations and challenged any differences.

INDEPENDENT AUDITOR'S REPORT *(continued)*

Key audit matters *(continued)*

Information technology and controls over financial reporting	
The Group is vitally dependent on its information technology infrastructure for the reliability and continuity of its business operations and financial reporting due to the extensive volume and variety of transactions which are processed daily. The extensive volume and variety of transactions processed daily raises the risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. A particular area of focus related to logical access management and segregation of duties. The underlying principles are important because they ensure that changes to applications and data are appropriate, authorised and monitored. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data.	Our audit approach relies on automated controls and therefore procedures are designed to test access and control over IT systems relevant for the preparation of the Group's consolidated financial statements. With the support of our IT audit specialists, our audit procedures included: • Obtained and updated our IT understanding relevant to financial reporting including the Bank's core banking system; • Testing IT general controls relevant to automated controls including system access security, program change management and IT operations (data centre and network operations); • Assessing the appropriateness of access rights granted to applications which included testing design and operating effectiveness of the Group's automated controls over systems that are relevant to financial reporting including swift messaging; • Evaluating the control environment relating to selected interfaces, configuration and other application controls; • Examining key controls over computer-generated information and report logics; and • Performing journal entry testing as stipulated by International Standard on Auditing.

Other information

The Board of Directors and management are responsible for the other information. The other information comprises the annual report of the Group. We obtained the Chairman's Report prior to the date of this auditor's report, and the remaining information of the annual report is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining information of the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Fom the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte.

INDEPENDENT AUDITOR'S REPORT *(continued)*

Auditor's responsibilities for the audit of the consolidated financial statements *(continued)*

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- the consolidated financial statements of the Group have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Group has maintained proper books of account;
- the financial information included in the Chairman's Report is consistent with the Group's books of account;
- note 15 to the consolidated financial statements of the Group discloses purchased or invested in shares during the financial year ended 31 December 2018;
- note 32 to the consolidated financial statements of the Group discloses material related party transactions, the terms under which they were conducted and principles of managing conflict of interests;
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2018; and
- note 10 to the consolidated financial statements of the Group discloses social contributions made during the financial year ended 31 December 2018.

Further, as required by the Decree of the Chairman of the Abu Dhabi Accountability Authority No. (1) of 2017 pertaining to Auditing the Financial Statements of Subject Entities, we report that based on the procedures performed and evidence obtained nothing has come to our attention that, in all material respects, causes us to believe that during the financial year ended 31 December 2018 the Bank has not been in compliance with

- its Articles of Association; and
- relevant provisions of applicable laws, resolutions and circulars organising the Bank's operations if they have a material financial impact on its financial statements for the year ended 31 December 2018.

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

Deloitte & Touche (M.E.)

Mohammad Khamees Al Tah
Registration No. 717
12 February 2019
Abu Dhabi
United Arab Emirates

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2018

	Notes	2018 AED'000	2017 AED'000	2018 USD'000	2017 USD'000
Interest income	*4*	**4,639,433**	4,012,860	**1,263,118**	1,092,529
Interest expense	*5*	**(1,998,936)**	(1,568,079)	**(544,224)**	(426,921)
Net interest income		**2,640,497**	2,444,781	**718,894**	665,608
Income from Islamic financing	*6*	**307,654**	320,973	**83,761**	87,387
Depositors share of profit - Islamic financing		**(149,897)**	(118,987)	**(40,811)**	(32,395)
Net income from Islamic financing		**157,757**	201,986	**42,950**	54,992
Net interest income and net income from Islamic financing		**2,798,254**	2,646,767	**761,844**	720,600
Net fee and commission income	*7*	**553,386**	756,094	**150,663**	205,852
Net gain from dealing in foreign currencies and derivatives		**72,961**	104,514	**19,864**	28,455
Net investment income		**39,883**	32,281	**10,858**	8,789
Net loss on investment properties	*16*	**(231,832)**	(27,188)	**(63,118)**	(7,402)
Other operating income	*8*	**79,400**	118,742	**21,617**	32,328
Operating income		**3,312,052**	3,631,210	**901,728**	988,622
Staff costs	*9*	**(805,156)**	(717,033)	**(219,209)**	(195,217)
Depreciation	*18*	**(73,647)**	(72,870)	**(20,051)**	(19,839)
Other operating expenses	*10*	**(363,230)**	(345,332)	**(98,892)**	(94,019)
Operating expenses		**(1,242,033)**	(1,135,235)	**(338,152)**	(309,075)
Operating profit before impairment charges		**2,070,019**	2,495,975	**563,576**	679,547
Impairment charge on financial assets, net	*11*	**(826,483)**	(793,685)	**(225,016)**	(216,086)
Profit before income tax		**1,243,536**	1,702,290	**338,560**	463,461
Income tax expense	*29*	**(57,957)**	(45,084)	**(15,779)**	(12,274)
Profit for the year		**1,185,579**	1,657,206	**322,781**	451,187
Attributable to:					
Equity holders of the Bank		**1,190,672**	1,644,771	**324,169**	447,801
Non-controlling interests		**(5,093)**	12,435	**(1,388)**	3,386
		1,185,579	1,657,206	**322,781**	451,187
Basic and diluted earnings per share	*34*	**AED 0.40**	AED 0.57	**USD 0.11**	USD 0.16

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

	2018 AED'000	2017 AED'000	2018 USD'000	2017 USD'000
Profit for the year	**1,185,579**	1,657,206	**322,781**	451,187
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Movement in investment revaluation reserve for debt investments at FVTOCI:				
- (Losses)/gains during the year	**(131,827)**	57,248	**(35,891)**	15,586
- Reclassification of gains included in profit or loss	**(9,902)**	(6,573)	**(2,696)**	(1,790)
Fair value changes on cash flow hedges	**(16,253)**	3,381	**(4,425)**	921
Exchange difference on translation of foreign operations	**620**	37,505	**169**	10,211
Income tax relating to items that may be reclassified subsequently to profit or loss	**(89)**	(823)	**(24)**	(224)
	(157,451)	90,738	**(42,867)**	24,704
Items that will not be reclassified subsequently to profit or loss:				
Actuarial losses on defined benefit liability	**(2,511)**	(5,922)	**(684)**	(1,612)
Movement in investment revaluation reserve for equity instruments at FVTOCI	**3,897**	-	**1,061**	-
Other comprehensive (loss)/gain for the year, net of tax	**(156,065)**	84,816	**(42,490)**	23,092
Total comprehensive income for the year	**1,029,514**	1,742,022	**280,291**	474,279
Attributable to:				
Equity holders of the Bank	**1,034,751**	1,728,184	**281,717**	470,511
Non-controlling interests	**(5,237)**	13,838	**(1,426)**	3,768
	1,029,514	1,742,022	**280,291**	474,279

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	Notes	2018 AED'000	2017 AED'000	2018 USD'000	2017 USD'000
ASSETS					
Cash and balances with central banks	12	**6,885,702**	9,196,456	**1,874,681**	2,503,800
Due from banks	13	**4,196,512**	1,745,646	**1,142,530**	475,264
Loans and advances measured at amortised cost	14	**72,331,205**	71,137,305	**19,692,678**	19,367,630
Investments	15	**19,274,764**	21,066,609	**5,247,690**	5,735,532
Investment properties	16	**1,869,825**	2,040,269	**509,072**	555,478
Other assets	17	**2,034,340**	1,951,539	**553,863**	531,320
Property and equipment	18	**316,066**	298,862	**86,051**	81,367
Goodwill	19	**80,795**	81,418	**21,997**	22,167
Total assets		**106,989,209**	107,518,104	**29,128,562**	29,272,558
LIABILITIES AND EQUITY					
Liabilities					
Customers' deposits	20	**77,439,629**	78,689,340	**21,083,482**	21,423,724
Due to banks	21	**3,400,372**	717,046	**925,775**	195,221
Medium term borrowings	22	**5,115,605**	6,491,225	**1,392,759**	1,767,282
Other liabilities	23	**2,077,321**	2,153,994	**565,565**	586,440
Total liabilities		**88,032,927**	88,051,605	**23,967,581**	23,972,667
Equity					
Share capital	24	**2,751,426**	2,751,426	**749,095**	749,095
Legal and statutory reserves	25	**2,780,596**	2,774,315	**757,037**	755,327
General reserve		**82,681**	73,944	**22,510**	20,132
Retained earnings		**12,030,627**	12,395,984	**3,275,423**	3,374,893
Foreign currency translation reserve		**(815,434)**	(816,215)	**(222,008)**	(222,220)
Cumulative changes in fair value		**(22,935)**	100,400	**(6,244)**	27,335
Cash flow hedge reserve		**-**	16,253	**-**	4,425
Tier I capital notes	26	**2,000,000**	2,000,000	**544,514**	544,514
Equity attributable to equity holders of the Bank		**18,806,961**	19,296,107	**5,120,327**	5,253,501
Non-controlling interests	27	**149,321**	170,392	**40,654**	46,390
Total equity		**18,956,282**	19,466,499	**5,160,981**	5,299,891
Total liabilities and equity		**106,989,209**	107,518,104	**29,128,562**	29,272,558

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 12 February 2019 and signed on their behalf by:

Nahayan Mabarak Al Nahayan Chairman	Mohammad Nasr Abdeen Chief Executive Officer	Sanjeev Dureja Chief Financial Officer

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

		Attributable to equity holders of the Bank										
	Notes	Share capital	Legal and statutory reserves	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair value	Cash flow hedge reserve	Tier I capital notes	Equity attributable to equity holders of the Bank	Non-controlling interests	Total equity
		AED '000	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
At 31 December 2017		2,751,426	2,774,315	73,944	12,395,984	(816,215)	100,400	16,253	2,000,000	19,296,107	170,392	19,466,499
Effect of change in accounting policy for IFRS 9 Financial Instrument		-	-	-	(905,787)	-	18,847	-	-	(886,940)	(9,464)	(896,404)
At 1 January 2018 (restated)		2,751,426	2,774,315	73,944	11,490,197	(816,215)	119,247	16,253	2,000,000	18,409,167	160,928	18,570,095
Profit for the year		-	-	-	1,190,672	-	-	-	-	1,190,672	(5,093)	1,185,579
Other comprehensive income/(loss) for the year		-	-	-	1,733	781	(142,182)	(16,253)	-	(155,921)	(144)	(156,065)
Total comprehensive income/(loss) for the year		-	-	-	1,192,405	781	(142,182)	(16,253)	-	1,034,751	(5,237)	1,029,514
Cash dividend	24	-	-	-	(550,285)	-	-	-	-	(550,285)	(6,370)	(556,655)
Transfer to legal and statutory reserves	25	-	6,281	-	(6,281)	-	-	-	-	-	-	-
Transfer to general reserve		-	-	8,737	(8,737)	-	-	-	-	-	-	-
Interest on Tier I capital notes	26	-	-	-	(86,672)	-	-	-	-	(86,672)	-	(86,672)
At 31 December 2018		2,751,426	2,780,596	82,681	12,030,627	(815,434)	(22,935)	-	2,000,000	18,806,961	149,321	18,956,282
At 1 January 2017		2,751,426	2,751,426	60,958	11,421,558	(852,315)	50,671	12,872	2,000,000	18,196,596	162,558	18,359,154
Profit for the year		-	-	-	1,644,771	-	-	-	-	1,644,771	12,435	1,657,206
Other comprehensive income/(loss)for the year		-	-	-	(5,797)	36,100	49,729	3,381	-	83,413	1,403	84,816
Total comprehensive income for the year		-	-	-	1,638,974	36,100	49,729	3,381	-	1,728,184	13,838	1,742,022
Cash dividend	24	-	-	-	(550,285)	-	-	-	-	(550,285)	(6,370)	(556,655)
Transfer to legal and statutory reserves	25	-	22,816	-	(22,816)	-	-	-	-	-	-	-
Transfer to general reserve		-	-	12,986	(12,986)	-	-	-	-	-	-	-
Interest on Tier I capital notes	26	-	-	-	(78,022)	-	-	-	-	(78,022)	-	(78,022)
Other movement in non-controlling interest		-	73	-	(439)	-	-	-	-	(366)	366	-
At 31 December 2017		2,751,426	2,774,315	73,944	12,395,984	(816,215)	100,400	16,253	2,000,000	19,296,107	170,392	19,466,499

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Notes	2018 AED '000	2017 AED '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before income tax		1,243,536	1,702,290
Adjustments for:			
Interest on medium term borrowings		213,441	149,988
Depreciation	*18*	73,647	72,870
Impairment charge on financial assets, (net)	*11*	826,483	793,685
Net loss on investment properties	*16*	231,832	27,188
Net gain on non-trading investments		(12,637)	(25,956)
Translation adjustments		11,500	47,671
Share of loss/(profit) in associate		3,944	(1,728)
Operating profit before changes in operating assets and liabilities		2,591,746	2,766,008
Income tax paid		(50,622)	(44,323)
		2,541,124	2,721,685
Changes in:			
Trading investments		(440,304)	(80,449)
Due from banks maturing after three months		1,227,508	484,367
Loans and advances		(2,853,189)	1,771,502
Other assets		41,707	66,790
Customers' deposits		(1,249,711)	1,164,512
Due to banks maturing after three months		154,176	(285,130)
Other liabilities		(130,239)	47,338
Net cash (used in)/generated from operating activities		(708,928)	5,890,615
CASH FLOWS FROM INVESTING ACTIVITIES			
Net purchase of property and equipment		(90,851)	(91,031)
Net sale/(purchase) of non-trading investments		2,610,611	(5,800,340)
Purchase of investment properties		(61,388)	(38,439)
Net cash generated from/(used in) investing activities		2,458,372	(5,929,810)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to equity holders		(550,285)	(550,285)
Dividends paid to non-controlling interests		(6,370)	(6,370)
Proceeds from medium term borrowing		1,826,495	1,101,900
Interest on Tier 1 capital notes		(86,672)	(78,022)
Interest paid on medium term borrowings		(212,354)	(151,160)
Repayment of medium term borrowings		(3,213,207)	-
Net movement in non-controlling interests		(9,608)	1,403
Net cash (used in)/generated from financing activities		(2,252,001)	317,466
Net (decrease)/increase in cash and cash equivalents		(502,557)	278,271
Cash and cash equivalents at the beginning of the year		6,358,543	6,080,273
Cash and cash equivalents at the end of the year	*30*	5,855,986	6,358,544
Interest/profit received during the year		4,804,068	4,311,095
Interest/profit paid during the year		2,059,326	1,517,369

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

1. GENERAL INFORMATION

Union National Bank - Public Joint Stock Company (the "Bank") was incorporated in the Emirate of Abu Dhabi on 29 November 1982 as a Public Joint Stock Company with limited liability under an Emiri Decree and in accordance with UAE Federal Law No. 8 of 1984 (as amended). The Bank carries on commercial and investment banking activities through its seventy four branches in the United Arab Emirates, a branch in the Qatar Financial Centre (UNB - Q), the State of Qatar, a branch in the State of Kuwait (UNB - K) and a branch in the People's Republic of China.

The registered address of the Bank is Post Box No. 3865 Abu Dhabi, United Arab Emirates.

The Government of Abu Dhabi, who holds an aggregate of 50% of the Bank's share capital through Abu Dhabi Investment Council, is the ultimate controlling party of the Group.

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (the "Subsidiaries") collectively referred to as the "Group". The main subsidiaries of the Bank are as follows:

Name	Proportion of ownership interest		Year of incorporation	Country of incorporation	Principal activities
	As at 31 December 2018	As at 31 December 2017			
Union Brokerage LLC ("UBC")	**99.6%**	99.6%	2002	U.A.E.	Brokerage activities for customers trading in shares and securities on Dubai Financial Market and Abu Dhabi Securities Exchange.
Al Wifaq Finance Company PrJSC ("AWFC")	**89.2%**	89.2%	2006	U.A.E.	Finance company providing Shari'a compliant Islamic finance products through seven branches in the U.A.E.
Union National Bank – Egypt ("UNB-E"), an Egyptian Joint Stock Company	**96.6%**	96.6%	1981	Egypt	Commercial banking related activities through forty eight branches in Egypt.
Union National Bank (BVI) Ltd.	**100%**	100%	2017	British Virgin Islands	Treasury dealing activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs"). The Islamic banking related activities are in accordance with the Fatwa and Shari'a Supervisory Board rulings.

The accounting policies adopted are consistent with those of the previous financial year except as noted below and as required by the adoption of IFRS 9 Financial Instruments (see note 2(y) for the transition impact).

New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions
- Amendments to IAS 40 *Investment Property* relating to when a transfer to or from investment property is made
- IFRS 15 *Revenue from Contract with Customers* regarding timing and measurement of revenue transactions

New and revised IFRS in issue but not yet effective

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

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 16 Leases IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • whether tax treatments should be considered collectively; • assumptions for taxation authorities' examinations; • the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • the effect of changes in facts and circumstances.	1 January 2019
Amendments to IAS 28 *Investment in Associates and Joint Ventures* Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2019
IAS 19 *Employee Benefits* Amendments regarding plan amendments, curtailments or settlements.	1 January 2019
IFRS 9 *Financial Instruments* Amendments regarding prepayment features with negative compensation and modifications of financial liabilities	1 January 2019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 11 *Joint Arrangements* Amendments resulting from Annual Improvements 2015–2017 Cycle (remeasurement of previously held interest)	1 January 2019
IAS 12 *Income Taxes* Amendments resulting from Annual Improvements 2015–2017 Cycle (income tax consequences of dividends)	1 January 2019
IAS 1 *Presentation of Financial statements & IAS 8 Accounting policies, changes in accounting estimates and errors* Amendments regarding the definition of material	1 January 2020
IFRS 3 Business Combinations Amendments to clarify the definition of a business	Business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

The Group has assessed the impact of above standards. Based on the assessment, the above standards have no material impact on the consolidated financial statements of the Group as at the reporting date.

(a) Basis of preparation

These consolidated financial statements are prepared under the historical cost basis except for certain financial instruments and investment properties, which are carried at fair value in accordance with IFRS.

These consolidated financial statements of the Group are presented in the United Arab Emirates Dirham ("AED"), which is also the functional currency of the Group, rounded to the nearest thousands, except as indicated. The US Dollar ("USD") amounts, which are presented in these consolidated financial statements have been translated from AED at an exchange rate of US$ 1 = UAE Dirham 3.673 and have been included for presentation purposes only.

The Group presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 3.2.

(b) Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries as at 31 December 2018. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

a. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
b. exposure, or rights, to variable returns from its involvement with the investee; and
c. the ability to use its power over the investee to affect its returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of consolidation *(continued)*

a. The size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
b. Potential voting rights held by the Company, other vote holders or other parties;
c. Rights arising from other contractual arrangements; and
d. Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in profit or loss from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the owners of the parent of the Group and to the non-controlling interests, even if it results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(c) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill.

Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Business combinations *(continued)*

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if this interest were disposed off.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit.

Any impairment loss for goodwill is recognised directly in profit or loss in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(d) Critical accounting judgments and key sources of estimation uncertainty

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of financial assets and liabilities and the disclosure of contingent liabilities.

Estimates and judgments are continually evaluated and are based on historical experience and other factors. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the group's accounting policies

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

Business model assessment

Classification and measurement of financial assets depends on the results of the solely payments of principal and interest (SPPI) and the business model test. The Group 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 judgement 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Critical accounting judgments and key sources of estimation uncertainty *(continued)*

Business model assessment *(continued)*

how these are managed. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group'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

Expected Credit Loss (ECL) are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

Establishing groups of assets with similar credit risk characteristics

The Group estimates ECL on an individual basis except for very small portfolio which is assessed on collective basis. When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics (e.g. instrument type, borrower characteristics, portfolio characteristics etc.). The Group 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 Group 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.

Key sources of estimation uncertainty

The following are key estimations that the Management has used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated 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 Group 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.

Macroeconomic scenario:

The measurement of ECL considers amongst other inputs reasonable forecast of future events and macroeconomic events. The ECL tends to increase or decrease based on the severity of the forecast. The estimation and determination of any macroeconomic forecast requires significant judgement.

The Group uses macroeconomic scenario forecast to estimate ECL under IFRS 9. To avoid conflict of interest, the Group subscribes to a macro-economic scenario forecast from a reputed third-party. This provides for unbiased third party estimates of future macroeconomic scenarios that shall be the key determinants of ECL estimation.

The scenario set used for the calculations consisted of a baseline scenario, an upside scenario and a downturn scenario. The scenarios are available with a forecast frequency of both monthly and quarterly.

Each scenario contains forecasts of constituent macro variables including the weighting of downside, baseline and upside scenarios.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Critical accounting judgments and key sources of estimation uncertainty *(continued)*

Expected Life:

When measuring ECL, the Group considers the maximum contractual period over which it is exposed to credit risk. Prepayment options are not considered while expected rollovers or extensions, especially for identified stage 2 customers is considered on a more conservative basis. For revolving credit facilities, limit expiry is considered as the expected life while the life for any overdue asset is considered to be a minimum of 1.5 years on a conservative basis.

Staging and ECL determination principles

- Stage 1: All regular accounts and accounts with past-due if any of less than 30 days are generally grouped here.
- Stage 2: All accounts with past-dues between 31 to 90 days and watch list accounts are grouped here.
- Stage 3: All accounts with past-due of greater than 90 days are grouped here.
- Retail accounts with past-due of greater than 180 days are defaulted to 100 % ECL.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires estimate of future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The Group uses a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Impairment of property and equipment

The Group determines whether property and equipment are impaired when events indicate that the carrying amount may not be recoverable. This requires an estimation of the recoverable amount of the property and equipment as of the reporting date. Estimation of the recoverable amount requires a comparison of the property and equipment's value in use with its fair value less costs to sell. Calculation of the value in use requires the Group to make an estimate of the expected future cash flows from the property and equipment and determination of a suitable discount rate in order to calculate the present value of those cash flows. The increase in the carrying amount of property and equipment attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined had no impairment loss been recognised for the assets in prior years.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models.

The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer–dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities.

Useful lives and residual values of property and equipment

The useful lives and residual values of property and equipment are based on management's judgment of the historical pattern of useful lives and the general standards in the industry. The useful lives used to depreciate assets relate to the future performance of the assets acquired and management's judgement of the period over which economic benefit will be derived from the asset. Management has reviewed the residual values and the estimated useful lives of assets in accordance with the relevant IFRSs and has determined that these expectations do not significantly differ from previous estimates.

Fair value of investment properties and investment properties under development

The fair value of investment properties is determined by independent real estate valuation experts using recognised valuation methods. These methods comprise the Comparable Method and Residual Value Method.

The Comparable Method utilizes the evidence of transactions or current asking prices of similar sites in the immediate vicinity and, if appropriate, applies adjustments to the sales figures based on market research and discussion with independent agents.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Critical accounting judgments and key sources of estimation uncertainty *(continued)*

Fair value of investment properties and investment properties under development *(continued)*

The key assumptions used are as follows:

	Range	
	2018	2017
Selling price per square foot for apartments	**AED 650 – AED 1,250**	AED 700 - AED 1,450
Selling price per square foot for retail units	**AED 900 – AED 1,050**	AED 1,675 - AED 3,100

The Residual Value Method requires the use of estimates such as future cash flows from assets (comprising of selling and leasing rates, future revenue streams, construction costs and associated professional fees, and financing cost, etc.), targeted internal rate of return and developer's risk and targeted profit. These estimates are based on local market conditions existing at the end of the reporting period.

Classification of properties

In the process of classifying properties, management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, property and equipment and/or property held for resale. The Group develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, property and equipment and/or property held for resale. In making its judgment, management considered the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16 and IAS 40, and in particular, the intended usage of property as determined by the management.

(e) Financial instruments

The Group initially recognises financial assets or financial liabilities designated at fair value through profit or loss, investments measured at fair value through other comprehensive income (FVTOCI) and investments measured at amortised cost on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Loans and advances, deposits, debt securities issued, borrowings and subordinated liabilities are recognised on the day they are originated.

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a Day 1 profit or loss) in the consolidated statement of profit or loss. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated statement of profit or loss when the inputs become observable, or when the instrument is derecognised.

(i) Financial assets

Classification (accounting policy from 1 January 2018)

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

The Group classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

(a) the entity's business model for managing the financial assets; and
(b) the contractual cash flow characteristics of the financial asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Financial instruments *(continued)*

(i) Financial assets *(continued)*

Classification (accounting policy from 1 January 2018) *(continued)*

Financial assets at amortised cost

A financial asset measured at amortised cost are categorised under such category if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
(b) 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.

Debt instruments, including loans and advances and Islamic financing and investments products, are measured at amortised cost if both the conditions mentioned above are met.

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a Day 1 profit or loss) in the consolidated statement of profit or loss. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated statement of profit or loss when the inputs become observable, or when the instrument is derecognised.

Financial assets at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in consolidated statement of comprehensive income and accumulated in the investments revaluation reserve. When the asset is disposed off, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not transferred to consolidated statement of profit or loss, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in the consolidated statement of profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 15 Revenue from Contracts with Customers, unless the dividends clearly represent a recovery of part of the cost of the investment.

Financial assets at fair value through profit or loss (FVTPL)

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

Debt instruments that do not meet the amortised cost criteria are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different basis.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed. Irrevocable designation of financial assets at FVTPL at initial recognition is made by the Group only if by doing so it eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Financial instruments *(continued)*

(i) Financial assets *(continued)*

Classification (accounting policy from 1 January 2018) *(continued)*

Financial assets at fair value through profit or loss (FVTPL) *(continued)*

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss is included in the 'net investment income' line item.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated statement of profit or loss when the Group's right to receive the dividends is established in accordance with IFRS and is included in the 'net investment income' line item.

The Group classifies its financial instruments in the following categories: Financial assets or financial liabilities at fair value through profit or loss, loans and receivables, available for sale investments and held to maturity investments. Management determines the classification of financial instruments at the time of initial recognition.

Financial assets or financial liabilities at fair value through profit or loss

This category has two sub-categories: financial assets or financial liabilities held for trading and those designated at fair value through profit or loss at inception. A financial asset or financial liability is classified as held for trading if acquired principally for the purpose of selling or repurchasing in the short term. The Group has designated financial assets or financial liabilities at fair value through profit or loss when either the assets or liabilities are managed, evaluated and reported internally on a fair value basis; or the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract. Derivatives are also categorised as fair value through profit or loss unless they are designated hedges.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Loans and receivables includes cash and balances with central banks, due from banks and loans and advances that are measured at amortised cost using the effective interest method, less any impairment.

Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity and the Group's management has the positive intention and the ability to hold to maturity.

Available for sale investments

Non-derivative financial assets that are not classified under any other category of financial assets are classified as available for sale.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that from an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Write-off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Financial instruments *(continued)*

(i) Financial assets *(continued)*

Classification (accounting policy from 1 January 2018) *(continued)*

Write-off *(continued)*

that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

Impairment (accounting policy from 1 January 2018)

Measurement

Under IFRS 9 the loss allowance remains based on the expected losses from defaults over the next 12 months unless there is a significant increase in credit risk. If there is a significant increase in credit risk, the allowance is measured as the present value of all credit losses projected for the instrument over its full lifetime. The Group uses statistical approaches to asses PD and LGD which are the key determinants in ECL estimation.

Probability of default (PD)

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)

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.

Specific details of PD and LGD assessment for retail portfolio and wholesale portfolio is provided below:

I. PD and LGD estimation for Retail Portfolio:

The ECL estimation for retail portfolio entailed determination of probability of default (PD), exposure at default (EAD) and loss given default (LGD) based on the historical data. Separate models have been constructed for personal finance and credit card portfolios.

Historical facility level data was used for modelling PD and LGDs with the data used for modelling including multiple fields comprising Consumer Characteristics, Facility Level characteristics, Loan Maturity, Consumer / Loan Characteristics and Macro-economic factors.

LGD methodology

LGD is computed based on default balance and recoveries. For the purpose of model construction, neither cures not multiple defaults were considered. The first default event is considered terminal status of a facility. Facilities that entered default remained in default for the duration of their time in the dataset.

II. ECL Estimation for Wholesale Portfolio:

For estimating PD and LGDs for the wholesale portfolio comprising corporate loans, due from banks and investment portfolio, the Group implemented forward-looking point in time expected loss calculation incorporating portfolio data and economic scenario analysis.

The model uses PD, LGD and EAD estimates to calculate ECL for each instrument by combining multiplicatively to provide ECL. Since the ECL is required over varying time horizons the model generate point in time (PIT) term structures of the three ECL driving components under different macroeconomic scenarios.

The results from each scenario are weighted by the probability of the scenario itself materializing, to derive the weighted average ECL under the multiple scenario analysis and arrive at a final ECL estimate.

Through the Cycle PDs

For estimating through the cycle (TTC) PD of a borrower, the Group has implemented rating models to assess risks falling under multiple asset classes.

The rating model provides the TTC PDs that are already mapped to external credit agency (ECA) ratings and allied PDs. For obligors not rated through the Group's internal ratings (viz. investment portfolio bonds), their external ratings were used. Portfolio weighted PDs were used for a small portfolio that could not be rated through the internal rating models or had external ratings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Financial instruments *(continued)*

(i) Financial assets *(continued)*

Impairment (accounting policy until 31 December 2017)

Financial assets

Loans and advances

The recoverable amount of loans and advances is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted. Loans and advances are presented net of impairment allowances. Specific impairment allowances are made against the carrying amount of loans and advances that are identified as being impaired based upon regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. Collective impairment allowances are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the reporting date. Changes in the allowance account are recognised in the consolidated statement of profit or loss. When a loan is known to be irrecoverable, and all the necessary legal procedures as required have been completed, the final loss is determined and the loan is written off.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Held to maturity investments

Impairment losses on held to maturity investments carried at amortised cost are measured as the difference between the carrying amount and the present value of estimated cash flows discounted at the original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against such financial assets. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Available for sale investments

Impairment losses on available for sale investments are recognised by transferring the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss out of equity to profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. When a subsequent event causes the amount of impairment loss on available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

Fair value measurement principles

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair values of investments in mutual funds or similar investment vehicles are based on the last net asset value published by the fund manager. For other investments including treasury bills, a reasonable estimate of the fair value is determined by reference to the price of recent market transactions involving such investments, current market value of instruments which are substantially the same, or is based on the expected discounted cash flows.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

The fair value of forward exchange contracts, interest rate swaps and option is calculated by reference to contracts with similar maturities.

The fair value of unquoted investments is determined by reference to discounted cash flows, pricing models or over-the-counter quotes.

Fair value information for investments measured at amortised cost have been disclosed in Note 3.5.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amounts reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liability simultaneously.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Financial instruments *(continued)*

(i) Financial assets *(continued)*

Offsetting financial instruments *(continued)*

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire or when substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but is transferred to retained earnings.

(ii) Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group or a contract that will or may be settled in the Group's own equity instruments and is a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Financial instruments *(continued)*

(ii) Financial liabilities and equity instruments *(continued)*

Financial liabilities *(continued)*

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 Financial Instruments permits the entire contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

The Group has not designated any financial guarantee contracts as at FVTPL.

Loan commitments

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from the commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial value is amortised over the life of the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(f) Impairment

(i) Financial assets

The Group recognizes loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Impairment *(continued)*

(i) Financial assets *(continued)*

- loans and advances to banks;
- loans and advances to customers;
- debt investment securities;
- lease receivables;
- loan commitments issued; and
- financial guarantee contracts issued
- Letter of Credits under trade finance transactions

No impairment loss is recognised on equity investments.

With the exception of Purchased or Originated Credit-Impaired (POCI) financial assets (which are considered separately), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down.
- For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group primarily measures ECL on an individual basis for majority of the portfolio with assessment on collective basis being conducted for a very small portfolios of loans that share similar economic risk characteristics.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. The Group has comprehensive policy for assessing evidence of increase in credit risk and credit-impairment including observable data about:

- significant financial difficulty of the issuer or the borrower; and / or
- a breach of contract, such as a default or past due event beyond an established threshold;

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if any debt instruments is credit impaired, the Group considers factors such as credit ratings and the ability of the borrower to raise funding apart from quantitative criteria linked to the number of days overdue.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more unless the loan qualifies for a rebuttable presumption under the IFRS 9 criteria.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Impairment *(continued)*

(i) Financial assets *(continued)*

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk

The Group considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

For ECL assessment the Group uses the default definition including application of rebuttable presumption under IFRS 9 as appropriate.

Significant increase in credit risk

The Group monitors all financial assets and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, financial analysis, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, forward looking information includes quantitative factors centred on days overdue and any restructuring requested by the customer. The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in days past due, internal ratings or rating downgrades inter-alia including any significant changes in operating results or financial position of the borrower, guarantor and other operating or economic conditions adversely impact borrower's ability to honour commitments.

The Group also considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Group considers the expectation of forbearance and payment holidays and events such as unemployment, bankruptcy, divorce or death.

As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

(ii) Property and equipment

At the end of each reporting period, the Group reviews the carrying amounts of its property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(g) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment property is initially measured at cost including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss under 'Net gain on investment properties' in the period they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in profit or loss under 'Net gain on investment properties' in the year of retirement or disposal.

(h) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and provisions for impairment. Depreciation is provided on a straight-line basis on all properties and equipment, other than freehold land which is determined to have an indefinite life. Where the carrying value of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal are taken into account in determining net income. The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	10 to 50 years
Furniture, equipment and motor vehicles	4 to 10 years
Computer hardware	4 to 5 years
Office improvements	3 to 4 years
Computer software	3 to 5 years

Capital work-in progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Collateral pending sale

Non-financial assets acquired in exchange for loans and advances in order to achieve an orderly realisation are recorded as assets held for sale and reported in 'Other assets'. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is provided in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in profit or loss. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in profit or loss.

(j) Zakat

Zakat is computed as per the Articles and Memorandum of Association of AWFC and is approved by AWFC's Fatwa and Sharia' Supervisory Board. Zakat is computed on shareholder's equity and certain other provisions which form part of Zakat pool. Upon approval by AWFC's Fatwa and Sharia' Supervisory Board, AWFC notifies to the shareholders. Distribution of the Zakat is the responsibility of the shareholders' of AWFC and UNB.

(k) Staff termination and other benefits

Pension obligations

The Bank and its subsidiaries incorporated in the UAE are a participant in a pension scheme in respect of eligible UAE national employees in compliance with the Abu Dhabi Retirement Pension & Benefits Fund's law. With respect to subsidiary and branch outside UAE, the Group provides for pension obligation in accordance with the applicable regulations in that jurisdiction. Obligations for contribution to pension scheme are recognised as an expense in profit or loss on an accrual basis under the defined contribution plan.

Termination gratuity benefit scheme

In compliance with UAE Federal Labour Law, the Bank and its subsidiaries incorporated in the UAE have a termination gratuity benefit scheme covering all of its expatriate salaried employees. The provision for gratuity is recognised as an expense in profit or loss under the defined benefit plan.

The Group provides for optional gratuity benefit for all employees of UNB-E. Gratuity scheme in UNB-E is in the nature of defined contribution plan whereby contributions made by both the UNB-E and staff are paid to an insurance company managing the gratuity fund with no additional liability on the part of the Group other than the contributions being made. The contribution made by the subsidiary is charged to profit or loss.

Voluntary employee saving scheme

The Bank and its subsidiaries incorporated in the UAE were participants to a voluntary employee savings scheme (VESS). Employees who are members of VESS contribute a specific percentage of their basic salary and the Bank and its subsidiaries incorporated in the UAE also contribute the matching amount. The contribution made by the Group to the VESS is charged to profit or loss on an accrual basis and VESS has been closed effective 1 January 2019.

(l) Revenue recognition

Interest income and expense is recognised in profit or loss as it accrues, taking into account the effective yield of the asset / liability or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

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 the effective interest rate. Other fees and commission income are recognised as the related services are performed.

Net investment income include realised gains and losses arising from disposals, unrealised gains and losses due to changes in the fair value of investments measured at fair value through profit or loss and dividend income. Gains and losses arising from changes in fair value of FVTOCI investments are recognised in the statement of other comprehensive income. Once the FVTOCI investments (except

(l) Revenue recognition *(continued)*

investment in equity instruments) are sold or realised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the consolidated statement of profit or loss. For investments in equity instruments at FVTOCI the cumulative gain or loss recognised in OCI are transferred to retained earnings on disposal. Dividend income is recognised in profit or loss when the entity's right to receive payment is established.

Net gain from dealing in foreign currencies and derivatives include gains and losses arising from forex trading and unrealized gains and losses due to changes in fair value of derivatives.

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the income statement in 'Other operating income'.

Fees in respect of guarantees are amortised over the period of the guarantee to which they relate.

(m) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(n) Taxation

Income tax expense comprises current and deferred tax and is provided in accordance with fiscal regulations of the respective country in which the group entity operates.

Current tax is the expected tax payable on the taxable income for the year using tax rate enacted or substantially enacted at the reporting date and any adjustments to tax payable in respect of the previous years.

Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax assets/liabilities are calculated using balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

The carrying amount of deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

(o) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand and balances with central banks, treasury bills, due from banks and due to banks maturing within three months from the date of origination.

(p) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Leasing *(continued)*

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see note q below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(q) Foreign currencies

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured at fair value in a foreign currency are retranslated at the rates prevailing at the date when the fair value is measured. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into AED using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group is reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are recognised in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Foreign currencies *(continued)*

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

(r) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

(s) Operating segment reporting

An operating segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) which is subject to risks and rewards that are different from those of other segments and whose operating results are regularly reviewed by the Group's Chief Operating decision maker to make decisions about allocation of resources and assess its performance.

(t) Repurchase and resale agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) are recognised in the consolidated statement of financial position and are measured in accordance with accounting policies for such securities. The counterparty liability for amounts received under these agreements is classified as a liability. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position and the amounts paid under these agreements are classified as an asset.

The difference between the related sale and repurchase prices is treated as interest expense or interest income arising from these transactions, respectively and is accrued over the period of the agreement using the effective interest method.

(u) Investment in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, generally accompanying a shareholding of between 20% to 50% of the voting rights, but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Bank's share of the net assets of the associate, less any impairment in the value of individual investments and share of changes in the statement of changes in equity. Losses of an associate in excess of the Bank's interest in that associate (which includes any long term interests that, in substance, form part of the Bank's net investment in the associate) are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. Any excess of the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, is recognised immediately in profit or loss. Where a Bank's subsidiary or other associate transacts with an associate of the Bank, profits and losses are eliminated to the extent of the Bank's interest in the relevant associate.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of this impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Investment in associates *(continued)*

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture. There is no remeasurement to fair value upon such changes in ownership interests. When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

(v) Derivative financial instruments

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index.

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate and interest rate risks, including interest rate swaps, foreign exchange forward contracts, commodity swaps and cross currency swaps.

Derivative financial instruments are initially measured at fair value at trade date, and are subsequently re- measured at fair value at the end of each reporting period. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Derivative assets and liabilities arising from different transactions are offset only if the transactions are with the same counterparty, a legal right of offset exists and the parties intend to settle the cash flows on a net basis.

Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the consolidated statement of profit or loss under 'Net gain from dealing in foreign currencies and derivatives'.

Embedded derivatives

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 Financial Instruments (e.g. financial liabilities) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

(w) Hedge accounting

Derivatives designated as hedges are classified as either: (i) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (ii) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; or (iii) a hedge of net investment which are accounted similarly to a cash flow hedge. Hedge accounting is applied to derivatives designated as hedging instruments in a fair value or cash flow, provided the criteria are met.

At the inception of a hedging relationship, to qualify for hedge accounting, the Group documents the relationship between the hedging instruments and the hedged items as well as its risk management objective and its strategy for undertaking the hedge. The Group also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to

(w) Hedge accounting *(continued)*

the hedged risks in the fair values or cash flows of the hedged items. Interest income and expenses on designated qualifying hedge swaps is included in 'Net interest income'.

Fair value hedges

The fair value change on qualifying hedging instruments is recognised in profit or loss except when the hedging instrument hedges an equity instrument designated at FVTOCI in which case it is recognised in OCI. The Group has not designated fair value hedge relationships where the hedging instrument hedges an equity instrument designated at FVTOCI.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVTOCI, the carrying amount is not adjusted as it is already at fair value, but the part of the fair value gain or loss on the hedged item associated with the hedged risk is recognised in profit or loss instead of OCI. When the hedged item is an equity instrument designated at FVTOCI, the hedging gain/loss remains in OCI to match that of the hedging instrument.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of hedged items for which the EIR method is used (i.e. debt instruments measured at amortised cost or at FVTOCI) arising from the hedged risk is amortised to profit or loss commencing no later than the date when hedge accounting is discontinued.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in the cash flow hedging reserve, a separate component of OCI, limited to the cumulative change in fair value of the hedged item from inception of the hedge less any amounts recycled to profit or loss.

Amounts previously recognised in OCI and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. If the Group no longer expects the transaction to occur that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised, or where the occurrence of the designated hedged forecast transaction is no longer considered to be highly probable. The discontinuation is accounted for prospectively. Any gain/loss recognised in OCI and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain/loss accumulated in equity is reclassified and recognised immediately in profit or loss.

Hedge effectiveness testing

To qualify for hedge accounting, the Bank requires that at the inception of the hedge and on an ongoing basis:

- the hedging relationship consists only of eligible hedging instruments and eligible hedged items;
- at inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge;
- the hedging relationship meets all of the hedge effectiveness requirements, i.e.:
    - there is an economic relationship between the hedged item and the hedging instrument;
    - the effect of credit risk does not dominate the value changes that result from that economic relationship; and
    - the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in consolidated statement of profit or loss under 'Net gain from dealing in foreign currencies and derivatives'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Islamic financing and investment products – definitions and revenue recognition

Mudaraba

Mudaraba is a contract between two parties whereby one party is a fund provider (Rab Al Mal) who would provide a certain amount of funds (Mudaraba Capital), to the other party (Mudarib). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit. The Rab Al Mal is not involved in the management of the Mudaraba activity. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal. Under the Mudaraba contract, the Company may act either as Mudarib or as Rab Al Mal, as the case may be.

Mudaraba investments are stated at fair value of the Mudaraba assets net of provision for impairment, if any, and Mudaraba capital amounts settled.

Estimated profit on Mudaraba is amortised on a time apportioned basis over the period, adjusted by actual profit when declared by the Mudarib, whereas the losses are charged to profit or loss on their declaration by the Mudarib.

Wakala investment

Wakala investment is an agreement whereby the Company (the Muwakkil) provides certain amount of funds (the Wakala Capital) to an agent (the Wakeel) to invest it in a Sharia compliant manner and in accordance with the feasibility study/investment plan submitted to the Muwakkil by the Wakeel, who is entitled to a fixed fee (the Wakala Fee) as a lump sum amount or a percentage of the Wakala Capital. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. The Muwakkil would bear the loss unless caused by the default, negligence or violation of any of the terms and conditions of the Wakala by the Wakeel. Wakala investments are stated at fair value of the Wakala assets net of provision for impairment, if any, and Wakala capital amounts settled.

Estimated income from Wakala investment is amortised on a time apportioned basis over the period, adjusted by actual income when declared by the Wakeel, whereas the losses are charged to profit or loss on their declaration by the Wakeel.

Share Murabaha

A share financing Murabaha contract whereby the Company (the Seller) sells shares to the customer (the Purchaser), on a deferred payment basis, after purchasing the shares, which the Seller had purchased and acquired, based on a promise received from the Purchaser to buy the shares once purchased according to specific Murabaha terms and conditions. The Murabaha sale price comprises the cost of the shares and an agreed profit amount. The Purchaser usually pays on an instalment basis over the period of the Murabaha contract.

The Murabaha profit is recognised on a time proportion basis over the period of the Murabaha contract.

Purchase by way of Murabaha

A Murabaha Contract whereby the institutional client (the Seller) sells an asset to the Company (the Purchaser), on a deferred payment basis, after purchasing the asset, which the Seller has purchased and acquired, based on a promise received from the Company to buy the asset once purchased according to specific Murabaha terms and conditions. The Murabaha purchase price, payable by the Purchaser, comprises the cost of the asset and an agreed profit amount. The Purchaser usually pays the Murabaha Sale price on an instalment basis over the period of the Murabaha contract.

Where the expense is quantifiable, expenses are recognised on a time apportioned-basis over the period of the Murabaha contract.

Qard Hasan

A non-profit bearing loan enables the customer to use the borrowed amounts for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any profit.

Istisna'a

Istisna'a is a sale contract between two parties whereby one party (sani' or seller) undertakes to construct, for the other party

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Islamic financing and investment products – definitions and revenue recognition *(continued)*

Istisna'a *(continued)*

(mustasni' or buyer), a specific asset or property according to certain pre-agreed specifications in consideration of a pre-determined price to be delivered during a pre-agreed period of time. The work undertaken is not restricted to be accomplished by the Sani' alone and the whole or part of the construction can be undertaken by third parties under the control and responsibility of the Sani'. Under an Istisna'a contract the Company could be the Sani' or the Mustasni'.

Wakala deposits

An agreement whereby the customer (the Muwakkil) provides certain amounts of funds (the Wakala Capital) to the Company (the Wakeel) to invest it in the general Shari'a compliant activity of the Company. The Wakeel is entitled to a fixed fee (the Wakala Fee) as a lump sum amount or a percentage of the Wakala Capital. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. The Muwakkil would bear the loss unless caused by the default, negligence or violation of any of the terms and conditions of the Wakala by the Wakeel.

Estimated profit payable on Wakala deposits is amortised/distributed on a time apportioned basis over the period, adjusted by actual profit realised.

Ijara Muntahiya Bil Tamleek Finance

Ijara (Ijara Muntahiya Bil Tamleek) is an agreement whereby the Company (as lessor) leases an asset to the customer (as Lessee) (after purchasing/acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and promise to lease), against certain rental payments for specific lease term/periods, payable on fixed or variable rental basis. Leased assets are usually residential properties, commercial real estate or aircrafts.

The Ijara agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation, the timing of rental payment and responsibilities of both parties during the lease term. The customer (lessee) provides the Company (lessor) with an undertaking to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Company (lessor) retains the ownership of the assets throughout the lease term. At the end of the lease term, upon fulfilment of all the obligations by the customer (lessee) under the Ijara agreement, the Company (lessor) will sell the leased asset to the customer (lessee) at nominal value based on sale undertaking given by the Company (lessor).

Income is recognised on an accrual basis over the lease term based on the fixed rental amount outstanding.

Forward Ijara

Forward Ijara (Ijara Mausoofa Fiz Zimma) is an agreement whereby the Company (as lessor) agrees to provide, on a specified future date, a certain described asset on lease to the customer (lessee) upon its completion and delivery by the developer/customer, from whom the Company has purchased the same, by way of Istisna. The lease rental under Forward Ijara commences only upon the customer (lessee) having received possession of the leased asset from the Company (lessor). The arrangement could end by transferring the ownership of the asset to the customer (lessee), as in the Ijara Muntahiya Bil Tamleek product.

During the construction period, the Company pays to the developer/contractor one payment or multiple payments, Forward Ijara profit during the construction period will be accounted for on a time-apportioned basis over the construction period on account of rentals. These profit amounts are received either during the construction period as advance rental payment or with the second rental payment after the commencement of the lease. Upon completion of the asset and commencement of the lease, income is recognised on a time-apportioned basis over the remaining period of the agreement based on the fixed rental amount outstanding as in the Ijara Muntahiya Bil Tamleek product.

Islamic Home Finance

The Company will buy the property from the developer and then lease it to the customer. The product can be an Ijara Muntahiya Bil Tamleek if the property is ready to lease or Forward Ijara if the property is under construction. Revenue is recognized as per revenue recognition criteria for these products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Islamic financing and investment products – definitions and revenue recognition *(continued)*

Murabaha

Murabaha is a contract whereby the Company (the Seller) sells an asset to the customer (the Purchaser), on a deferred payment basis, after purchasing the asset, which the Seller had purchased based on a promise received from the customer to buy the asset once purchased according to specific Murabaha terms and conditions. The Murabaha sale price comprises the cost of the asset and an agreed profit margin. The sale price (cost plus the profit amount) is paid by the Purchaser to the Seller on instalment basis over the agreed finance tenure. The Murabaha sale price, receivable from the Purchaser, comprises cost of the asset sold and an agreed profit amount. The Purchaser usually pays the Murabaha Sale Price on an instalment basis over the period of the Murabaha contract.

Murabaha profit is recognised on a time-apportioned basis over the period of the contract.

Musharaka Investment

Musharaka is used to provide venture capital or project finance. The Company and customer contribute towards the capital of the Musharaka. Usually a special purpose company or a partnership is established as a vehicle to undertake the Musharaka. Profits are shared according to a pre-agreed profit distribution ratio but losses are borne according to the capital contributions. Capital contributions may be in cash or in kind, as valued at the time of entering into the Musharaka.

Estimated profit is amortised on a time apportioned basis over the period, adjusted by actual profit when received, whereas the losses are charged to profit or loss on their declaration.

Depositors' share of profit

Depositors' share of profits is the amount accrued as an expense on the funds accepted from banks and customers in the form of Wakala and Mudaraba deposits and recognised as expenses in the consolidated statement of profit or loss. The amounts are calculated in accordance with agreed terms and conditions of the wakala deposits and Sharia'a principles.

(y) IFRS 9 transition impact disclosure

The Group has adopted IFRS 9, as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial statements as of and for the year ended 31 December 2017. The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current year.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation of certain investments in equity instruments not held for trading as at FVTOCI.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since initial recognition.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in the consolidated income statement, under IFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) IFRS 9 transition impact disclosure *(continued)*

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The Group applies three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost and debt instruments classified as FVTOCI. Assets migrate through three stages based on the change in credit quality since initial recognition.

Set out below are the IFRS 9 transition impact disclosures for the Group. Further details of the specific IFRS 9 accounting policies applied in the current period are described in more detail in note 2.

Summary of impact upon adoption of IFRS 9 – Classification and measurement

The following table summarizes the classification and measurement impact as at 1 January 2018. Reclassifications represent movements of the carrying amount of financial assets and liabilities which have changed their classification. Remeasurement represents changes in the carrying amount of the financial assets and liabilities due to changes in their measurement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) IFRS 9 transition impact disclosure *(continued)*

Summary of impact upon adoption of IFRS 9 – Classification and measurement *(continued)*

IAS 39	IAS 39 Measurement category	IAS 39 carrying amount	Reclassifications	Remeasurement	IFRS 9 carrying amount	IFRS 9 measurement category	IFRS 9
Financial assets		AED'000	AED'000	AED'000	AED'000		
Cash and balances with central banks	Amortised cost	9,196,456	-	(723)	9,195,733	Amortised cost	Cash and balances with central banks
Due from banks	Amortised cost	1,745,646	-	(1,938)	1,743,708	Amortised cost	Due from banks
Investments							
Trading investments	FVTPL	1,526	(1,526)	-	-		
Designated at fair value through profit or loss	FVTPL	52,128	1,526	-	53,654	FVTPL	Fair value through profit or loss
Available for sale	FVTOCI	17,696,435	-	-	17,696,435	FVTOCI	Fair value through other comprehensive income
Held to maturity	Amortised cost	3,316,520	-	(9,571)	3,306,949	Amortised cost	Investments measured at amortised cost
Loans and advances	Amortised cost	71,137,305	-	(815,564)	70,321,741	Amortised cost	Loans and advances measured at amortised cost
Other assets	Amortised cost	1,747,719	-	(14,409)	1,733,310	Amortised cost	Other assets
Derivatives	FVTPL	203,820	-	-	203,820	FVTPL	Derivatives
Letter of credit, financial guarantees and undrawn loan commitments	Amortised cost	45,657,154	-	(54,199)	45,602,955	Amortised cost	Letter of credit, financial guarantees and undrawn loan commitments
Total		**150,754,709**	**-**	**(896,404)**	**149,858,305**		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) IFRS 9 transition impact disclosure *(continued)*

Summary of impact upon adoption of IFRS 9 – Impairment

The following table is a comparison of impairment allowances determined in accordance with IAS 39 and IAS 37 to the corresponding impairment allowance determined in accordance with IFRS 9 as at 1 January 2018.

	Impairment allowance under IAS 39 as at 31 December 2017	Transition Adjustments	Impairment allowance under IFRS 9 as at 1 January 2018
	AED'000	AED'000	AED'000
Cash and balances with central banks	-	723	723
Due from Banks	104	1,938	2,042
Loans and advances measured at amortised cost	3,110,654	815,564	3,926,218
Investment securities at amortised cost	-	9,571	9,571
Other assets	-	14,409	14,409
Letter of credit, financial guarantees and undrawn loan commitments	10,818	54,199	65,017
Total allowance for credit losses	3,121,576	896,404	4,017,980

3 Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the identification, evaluation, acceptance and management of risks or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up to date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. The key risks are credit, liquidity, market and operational risks. Market risk includes currency, interest rate and other price risk.

The Group has established a risk management structure to oversee and manage these risks through various management committees which are responsible for making decisions and controlling the risk in relevant areas as follow:

Assets and Liability Committee (ALCO) is responsible for monitoring, managing and controlling liquidity, interest rate and foreign exchange risks arising from the Bank's lending, funding and investment activities.

Investment Committee (ICO) is responsible for developing the trading and investment strategy and approves specific trading and investment proposal. ICO reviews and updates the trading and investment strategy on a periodic basis.

Head Office Credit Committee (HOCC) is responsible for taking credit decision at the higher level of the lending portfolio, recommending credit policy and the future direction of credit activities in the Bank.

Remedial Asset Committee (RAC) is responsible for monitoring the non-performing loans portfolio of the Bank, develops specific and collective impairment policies and proposals to initiate legal action against borrowers of the Bank.

3 FINANCIAL RISK MANAGEMENT *(continued)*

Risk Management Committee (RMC) functions to ensure that appropriate and prudent policies, procedures and practices are implemented to manage key risks. As such, RMC reviews the enterprise-wide mechanisms for the measurement, management, reporting and mitigation of all types of risks facing the Bank, and makes appropriate recommendations thereon. In addition, RMC is the primary body for monitoring and managing operational risk. The Bank has a separate Enterprise Risk function which independently reviews all risk measurement and monitoring policies.

In addition to the management committees as mentioned above, the Bank has the following board level committees which are responsible for making decisions and controlling the risk in relevant areas, as follows:

The Audit Committee (AC), which is a Board committee assisted by internal audit function, is charged with directly supporting the Board in fulfilling its responsibilities in safeguarding shareholders' funds. AC provides assurances to the Board that the policies and procedures and the objectives set by the Board, are being complied with. AC comprises three Board members and the Head of Audit, as its secretary, and meets at least four times a year.

Board Remedial Asset Committee (BRAC) monitors recovery efforts of the Bank and approves provisioning policies, specific provisions for individual credit facilities and proprietary investments and monitors the activities of the RAC.

Board Risk Committee (BRC) assists the Board in establishing risk management policies and risk appetite, and monitoring the risk positioning in the context of the risk appetite criterion, reviewing and approving the stress testing methodologies and results.

Board Credit Committee (BCC) supports the Board in credit approving decisions viz. directly involved in the approving the lending decisions within their delegated authority as well as reviewing and recommending other credit proposals that exceeds the delegated authority to the Board.

In broad terms, the structure enables the establishment of risk management policies, monitoring and review of compliance with those policies. Significant risk issues are escalated to the appropriate committee for information and/or action. In addition, various functions within the Bank are responsible for measuring, managing or monitoring risk in accordance with the decisions of the management and / or board committees.

The nature of risks and the approach to managing risks differs fundamentally between the trading and non-trading portfolios. Section (b) below contains risk management information related to the trading activities.

(a) Derivative financial instruments

The Group enters into a variety of derivative financial instruments for trading and risk management purposes. Derivative financial instruments used by the Group include options, swaps and forward foreign exchange contracts as mentioned in Note 31 to these consolidated financial statements.

The Group is subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavourable movements in interest rates, foreign currency exchange rates and equity prices relative to the contractual rates.

(b) Trading activities

The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the consolidated statement of financial position. In addition, the Group is exposed to credit risk through commitments to extend credit, letters of credit and letters of guarantee issued (refer Note 28). The Group is also exposed to credit risk on other financial assets, including derivative instruments. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the consolidated statement of financial position.

The Group maintains trading positions in a variety of financial instruments and manages the trading activities by type of risk involved and on the basis of the categories of trading instruments held.

Credit Risk

The Group's credit exposure at the reporting date arising from financial instruments held for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the consolidated statement of financial position. The risk that counterparties to trading instruments might default on their obligation is monitored on an ongoing basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Trading activities *(continued)*

Market Risk

All trading and non-trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable. The instruments are recognised at fair value and all changes in market conditions directly affect net trading income. Exposure to market risk is managed in accordance with risk limits set by management committees in response to changing market conditions.

3.1 Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to a financial instrument, to meet its obligations under a contract. It arises principally from lending, trade finance and non-trading investment activities. For risk management purposes, credit risk arising on trading investments is reported as a component of market risk exposure. The Group has policies and procedures dedicated to controlling and monitoring risk from all such activities.

3.1.1 Credit risk management

Credit risk is actively managed and monitored in accordance with defined credit policies and procedures. The creditworthiness of each counter party is evaluated and appropriate credit limits are established. To reduce individual counterparty credit risk, the Group ensures that, whenever necessary, all loans are secured by acceptable form of collateral. Credit limits are also established for countries, sectors and products to ensure the broad diversification of credit risk and to avoid undue concentration. Established limits and actual levels of exposure are regularly reviewed and updated by management. In addition, the Group's credit review procedures are designed to identify, at an early stage, exposures that require more detailed monitoring and review.

The Bank's credit policies and procedures are approved by HOCC which is set out in the Credit Manual. The powers of HOCC are delegated through an authority from the Board of Directors. The HOCC is also charged with the responsibility for monitoring the overall credit quality of the Bank's advances portfolio, setting the level of exposure to individual industry and economic sectors as well as inter-bank and country limits. Diversification is encouraged in order to alleviate concentration risks.

All credit lines are approved at appropriate levels and, wherever possible, these are secured by acceptable forms of collateral in order to mitigate credit risk. Adequate segregation exists between credit origination, approval, administration/monitoring functions.

In addition to above, the Credit Review function within Internal Audit function is charged with the responsibility of conducting periodic reviews of individual accounts to ensure that all necessary internal and regulatory guidelines are being adhered to apart from performing an independent credit quality evaluation.

Credit quality per class of financial assets

All corporate and commercial facilities are assigned risk ratings on initial recognition and thereafter reassessed on an annual basis or an earlier date in the event of any adverse information. In 2018, the Group implemented a new rating system thereby transitioning from the old 13 grade rating system to the new 22 grade rating system. The new rating system assigns individual probability of defaults (PD) to customers using a judicious blend of quantitative and qualitative customer data and is more granular with 19 performing and 3 non-performing grades.

Past due but not impaired financial assets

These are the financial assets, where contractual interest or principal payments are past due. The Group closely monitors these assets individually and determines that impairment on that exposure is not required considering the borrower's ability to pay, level of collaterals available and/or the stage of collection of the amounts owed to the Group.

Under IFRS 9, the credit quality of gross exposure for loans and advances measured at amortised cost has been disclosed by stages under note 14.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.1 Credit risk management *(continued)*

The gross carrying amount of financial assets less impairment losses as per IAS 39 is as follows:

	Neither past due nor impaired					
	Normal grade	Watch list	Past due but not impaired	Impaired	Impairment allowance	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2017						
Cash and balances with central banks	9,196,456	-	-	-	-	9,196,456
Due from banks	1,745,646	-	-	104	(104)	1,745,646
Loans and advances	61,940,761	2,580,826	6,524,237	3,202,135	(3,110,654)	71,137,305
Investments (except equity)	20,953,568	-	-	-	-	20,953,568
Others	1,716,142	-	-	-	-	1,716,142
	95,552,573	2,580,826	6,524,237	3,202,239	(3,110,758)	104,749,117

Ageing analysis of past due but not impaired loans as per IAS 39 is as follows:

	2017
	AED'000
0 to 30 days	5,817,676
31 to 90 days	327,626
Over 90 days	378,935
	6,524,237

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.1 Credit risk management *(continued)*

Write off

Impaired corporate accounts and related impairment allowances are written off on a case by case basis either partially or fully when there is no realistic prospect of recovery of these amounts i.e. when all legal avenues for recovery have been exhausted and when the proceeds from the realisation of security have been received. Retail loans are written-off after 181 days overdue.

Approving settlement arrangements including write offs are carried out by either RAC or BRAC as per delegated authorities.

Any recovery at a future date from the written-off loans is directly recognised in profit or loss as an adjustment to impairment loss on financial assets.

Collateral and other credit enhancements obtained

The Group holds collateral against loans and advances in the form of mortgage over property, securities, cash margins and lien over fixed deposits and pledge/lien on other types of assets as in bank guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are updated on a regular basis depending on the type of asset.

As per the guidelines of the Central Bank of the UAE, mortgaged collaterals are required to be disposed off within a period of three years from the date of acquisition. However, as per guidelines of Central Bank of Egypt, all moveable assets acquired are required to be disposed of within a period of one year and immovable assets within a period of five years.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements and other independent sources.

The table below shows the lower of the collateral value or the collateralised loan outstanding balance as at the reporting date:

	2018 AED'000	2017 AED'000
Against loans and advances not impaired		
Property	13,583,164	12,483,979
Securities	3,199,106	4,190,875
Cash margins and lien over fixed deposits	400,826	597,329
Others	1,083,926	1,569,170
	18,267,022	18,841,353
Against individually impaired		
Property	741,870	809,382
Securities	37,648	54,759
Cash margins and lien over fixed deposits	1,043	10,167
Others	20,408	3,613
	800,969	877,921

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.1 Credit risk management *(continued)*

Collateral and other credit enhancements obtained *(continued)*

Among all financial assets, loans and advances with a carrying amount of AED 72,284,434 thousand (2017: AED 71,137,305 thousand) have collaterals with fair value of AED 36,130,600 thousand (2017: AED 40,905,456 thousand).

Credit concentration

Concentrations of credit risk that arise from financial instruments exist for groups of counterparties having similar economic characteristics, that would cause their ability to meet contractual obligations, affected by changes in economic or other conditions.

The major concentrations of credit risk arise by location and type of counterparties or issuer in relation to the Group's investments, loans and advances, due from banks and commitments to extend credit and guarantees issued. Other than the exposure to UAE government entities, which is high in nature, the Group has no significant exposure to any individual customer or counterparty. The Group monitors concentration of credit risk by economic sector, geographic locations and counterparties.

Analysis of financial asset by economic sector is as follows:

	Cash and balances with central banks	Due from banks	Loans and advances measured at amortised cost	Investments (except equity)	Total
31 December 2018	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Financial institutions	634,739	4,196,769	9,728,748	6,767,490	21,327,746
Consumer	-	-	19,228,808	-	19,228,808
Sovereign	6,250,963	-	3,478,841	8,321,085	18,050,889
Real estate and mortgage	-	-	13,745,387	736,675	14,482,062
Services	-	-	6,571,452	904,597	7,476,049
Trade	-	-	6,393,376	433,553	6,826,929
Energy	-	-	4,813,843	1,803,529	6,617,372
Construction	-	-	3,969,135	-	3,969,135
Manufacturing	-	-	3,647,794	188,494	3,836,288
Others	-	-	4,551,007	-	4,551,007
Gross balance	**6,885,702**	**4,196,769**	**76,128,391**	**19,155,423**	**106,366,285**
Impairment allowance	-	(257)	(3,797,186)	(12,184)	(3,809,627)
Net balance	**6,885,702**	**4,196,512**	**72,331,205**	**19,143,239**	**102,556,658**
31 December 2017					
Financial institutions	772,787	1,745,750	9,253,621	7,802,367	19,574,525
Consumer	-	-	20,516,639	-	20,516,639
Sovereign	8,423,669	-	4,651,401	9,068,191	22,143,261
Real estate and mortgage	-	-	11,064,914	980,387	12,045,301
Services	-	-	7,016,487	807,397	7,823,884
Trade	-	-	5,648,120	169,641	5,817,761
Energy	-	-	4,259,996	1,661,785	5,921,781
Construction	-	-	4,095,460	-	4,095,460
Manufacturing	-	-	3,443,975	463,800	3,907,775
Others	-	-	4,297,346	-	4,297,346
Gross balance	9,196,456	1,745,750	74,247,959	20,953,568	106,143,733
Impairment allowance	-	(104)	(3,110,654)	-	(3,110,758)
Net balance	9,196,456	1,745,646	71,137,305	20,953,568	103,032,975

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.2 Exposure to credit risk *(continued)*

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the gross maximum exposure to credit risk without taking into consideration the effect of credit risk mitigants through the use of master netting and collateral agreements.

	Gross maximum exposure 2018	Gross maximum exposure 2017
	AED'000	AED'000
Balances with central banks	6,250,963	8,423,669
Due from banks	4,196,512	1,745,646
Loans and advances measured at amortised cost	72,331,205	71,137,305
Investments (except equity)	19,143,239	20,953,568
Other assets	1,784,497	1,716,142
Total	103,706,416	103,976,330
Contingent liabilities [Note 28(b)]	29,633,044	31,248,847
Loans and advances commitments – irrevocable [Note 28(a)]	3,780,840	2,471,487
Total	33,413,884	33,720,334
Total maximum credit risk exposure	137,120,300	137,696,664

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.2 Exposure to credit risk *(continued)*

Geographic concentrations of consolidated statement of financial position items are presented in the table below.

31 December 2018	UAE AED'000	GCC* (excluding UAE) AED'000	OECD** countries AED'000	Others AED'000	Total AED'000
ASSETS					
Financial assets					
Cash and balances with central banks	6,098,670	32,099	-	754,933	6,885,702
Due from banks	1,634,622	198,838	1,903,125	459,927	4,196,512
Loans and advances measured at amortised cost	65,322,059	1,653,122	2,571	5,353,453	72,331,205
Investments	12,440,805	1,380,174	456,989	4,996,796	19,274,764
Other assets	1,695,402	12,141	6	76,948	1,784,497
Non-financial assets					
Investment properties	1,869,825	-	-	-	1,869,825
Other assets	212,545	1,770	-	35,528	249,843
Property and equipment	179,994	2,641	-	133,431	316,066
Goodwill	-	-	-	80,795	80,795
	89,453,922	3,280,785	2,362,691	11,891,811	106,989,209
LIABILITIES AND EQUITY					
Financial liabilities					
Customers' deposits	58,328,824	6,251,458	71,789	12,787,558	77,439,629
Due to banks	3,134,285	76,232	12,926	176,929	3,400,372
Medium term borrowings	-	-	5,115,605	-	5,115,605
Other liabilities	1,504,653	15,368	29,569	147,766	1,697,356
Non-financial liabilities					
Other liabilities	308,769	7,867	-	63,329	379,965
Equity	18,940,348	-	-	15,934	18,956,282
	82,216,879	6,350,925	5,229,889	13,191,516	106,989,209

**Gulf Cooperation Council*

***Organisation for Economic Cooperation and Development*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.2 Exposure to credit risk *(continued)*

31 December 2017	UAE AED'000	GCC* (excluding UAE) AED'000	OECD** countries AED'000	Others AED'000	Total AED'000
ASSETS					
Financial assets					
Cash and balances with central banks	8,462,241	47,813	-	686,402	9,196,456
Due from banks	940,937	133,948	147,563	523,198	1,745,646
Loans and advances	66,055,381	1,569,376	2,853	3,509,695	71,137,305
Investments	12,073,830	2,345,403	1,519,386	5,127,990	21,066,609
Other assets	1,643,911	8,684	18	63,529	1,716,142
Non-financial assets					
Investment properties	2,040,269	-	-	-	2,040,269
Other assets	203,242	2,293	-	29,862	235,397
Property and equipment	183,572	5,214	-	110,076	298,862
Goodwill	-	-	-	81,418	81,418
	91,603,383	4,112,731	1,669,820	10,132,170	107,518,104
LIABILITIES AND EQUITY					
Financial liabilities					
Customers' deposits	62,196,676	4,652,174	78,109	11,762,381	78,689,340
Due to banks	327,099	240,963	40,519	108,465	717,046
Medium term borrowings	934,723	421,541	4,988,338	146,623	6,491,225
Other liabilities	1,622,438	17,817	29,569	127,346	1,797,170
Non-financial liabilities					
Other liabilities	285,970	5,394	-	65,460	356,824
Equity	19,451,501	-	-	14,998	19,466,499
	84,818,407	5,337,889	5,136,535	12,225,273	107,518,104

**Gulf Cooperation Council*

***Organisation for Economic Cooperation and Development*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Liquidity risk

Liquidity or funding risk is the risk that the Group will encounter difficulty in meeting all foreseeable funding commitments and deposits withdrawal that may arise. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame in order to meet the funding requirements.

Management of liquidity risk

The Group manages liquidity risk by having access to a diverse funding base. Funds are raised using a broad range of instruments including customer deposits, money market deposits, medium term borrowings and capital. The management monitors the maturity profiles to ensure that adequate liquidity is maintained. This enhances funding flexibility, limits dependence on one source of funds and also lowers the cost of funds. ALCO is responsible for review and approval of liquidity policies and procedures.

Minimum liquidity ratio limits are set for Bank and its subsidiary bank. Limits reflect the local marketplace, the diversity of funding sources available, and the concentration risk from large depositors. The Bank and its banking subsidiary monitor liquidity ratio limits set and comply with liquidity ratios prescribed by the local regulators.

Analysis of financial liabilities by contractual undiscounted payment obligations

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2018 and 31 December 2017 based on the contractual undiscounted payment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	Up to three months	From three months to one year	From one year to three years	From three years to five years	Over five years	Total
31 December 2018	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Customers' deposits	**46,074,903**	**28,405,773**	**3,884,222**	**112,756**	**26,802**	**78,504,456**
Due to banks	**3,249,040**	**154,354**	**31**	**756**	**10,154**	**3,414,335**
Medium term borrowings	**48,499**	**133,393**	**2,567,914**	**3,061,295**	**-**	**5,811,101**
Other liabilities	**1,067,913**	**502,095**	**50,199**	**19,976**	**57,173**	**1,697,356**
Total	**50,440,355**	**29,195,615**	**6,502,366**	**3,194,783**	**94,129**	**89,427,248**
31 December 2017						
Customers' deposits	54,251,987	23,132,638	2,256,820	33,496	30,715	79,705,656
Due to banks	715,046	-	-	1,024	4,270	720,340
Medium term borrowings	400,299	2,960,910	187,340	3,407,142	-	6,955,691
Other liabilities	1,322,821	444,432	29,917	-	-	1,797,170
Total	56,690,153	26,537,980	2,474,077	3,441,662	34,985	89,178,857

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Liquidity risk *(continued)*

Maturity profile of assets and liabilities

The following table reflects the contractual maturities of assets and liabilities which have been determined on the basis of the remaining period to maturity as at the reporting date. It does not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds.

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

31 December 2018	Up to three months AED'000	From three months to one year AED'000	From one year to three years AED'000	From three years to five years AED'000	Over five years AED'000	Unspecified maturity AED'000	Total AED'000
ASSETS							
Cash and balances with central banks	6,824,178	61,524	-	-	-	-	6,885,702
Due from banks	4,170,816	7,331	18,365	-	-	-	4,196,512
Loans and advances measured at amortised cost	10,651,495	6,762,694	13,551,512	12,086,926	29,278,578	-	72,331,205
Investments	2,200,357	4,549,496	4,996,311	3,072,081	4,113,663	342,856	19,274,764
Investment properties	-	-	-	-	-	1,869,825	1,869,825
Other assets	1,062,460	526,524	81,759	60,035	187,118	116,444	2,034,340
Property and equipment	-	-	-	-	-	316,066	316,066
Goodwill	-	-	-	-	-	80,795	80,795
Total	24,909,306	11,907,569	18,647,947	15,219,042	33,579,359	2,725,986	106,989,209
LIABILITIES AND EQUITY							
Customers' deposits	45,806,144	27,721,383	3,774,320	111,915	25,867	-	77,439,629
Due to banks	3,239,701	150,030	27	745	9,869	-	3,400,372
Medium term borrowings	-	-	2,195,511	2,920,094	-	-	5,115,605
Other liabilities	1,172,962	580,173	80,116	32,261	58,881	152,928	2,077,321
Equity	-	-	-	-	-	18,956,282	18,956,282
Total	50,218,807	28,451,586	6,049,974	3,065,015	94,617	19,109,210	106,989,209
Net liquidity gap	(25,309,501)	(16,544,017)	12,597,973	12,154,027	33,484,742	(16,383,224)	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Liquidity risk *(continued)*

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

31 December 2017	Up to three months AED'000	From three months to one year AED'000	From one year to three years AED'000	From three years to five years AED'000	Over five years AED'000	Unspecified maturity AED'000	Total AED'000
ASSETS							
Cash and balances with central banks	5,146,456	4,050,000	-	-	-	-	9,196,456
Due from banks	1,437,738	289,542	18,366	-	-	-	1,745,646
Loans and advances	11,725,438	7,287,476	12,600,392	11,682,188	27,841,811	-	71,137,305
Investments	2,804,577	4,417,945	4,932,544	4,437,455	4,398,573	75,515	21,066,609
Investment properties	-	-	-	-	-	2,040,269	2,040,269
Other assets	1,024,408	378,062	45,220	73,490	123,875	306,484	1,951,539
Property and equipment	-	-	-	-	-	298,862	298,862
Goodwill	-	-	-	-	-	81,418	81,418
Total	22,138,617	16,423,025	17,596,522	16,193,133	32,364,259	2,802,548	107,518,104
LIABILITIES AND EQUITY							
Customers' deposits	53,819,440	22,627,498	2,199,948	27,270	15,184	-	78,689,340
Due to banks	711,873	-	-	1,001	4,172	-	717,046
Medium term borrowings	376,969	2,830,671	-	3,283,585	-	-	6,491,225
Other liabilities	1,168,388	464,453	83,410	27,088	19,178	391,477	2,153,994
Equity	-	-	-	-	-	19,466,499	19,466,499
Total	56,076,670	25,922,622	2,283,358	3,338,944	38,534	19,857,976	107,518,104
Net liquidity gap	(33,938,053)	(9,499,597)	15,313,164	12,854,189	32,325,725	(17,055,428)	-

3.3 Market risk

Market risk is the risk that movement in market risk factors e.g. interest rates, foreign exchange rates, credit spreads and equity prices will affect the Group's income or the value of its financial instruments.

Management of market risk

The Group separates its exposure for market risk purposes into trading and non-trading portfolio. All trading instruments are recognised at fair value, and changes in fair value are directly shown in profit or loss. The principal tool used to measure and control market risk for trading portfolio is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over one month time horizon from an adverse market movement with 99% confidence level. The VaR model used is based on parametric methodology with historical simulation of at least one year. Exposure to market risk is managed in accordance with risk limits set by senior management in response to changing market conditions.

Interest rate risk is the risk that arises from timing difference in the maturity and/or repricing of Group's assets, liabilities and derivative financial instruments. Repricing mismatch expose the Group to the unanticipated fluctuations in interest income or underlying economic value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Market risk *(continued)*

3.3.1 Interest rate risk

The Group manages the interest rate risk by monitoring the interest rate mismatch and uses various derivative e.g. interest rate swaps, cross currency interest rate swaps to manage the risk. The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Group is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the savings rate, or six months LIBOR, etc. The Group proactively manages its interest rate sensitivity position, based on anticipated and actual interest rate movements, in order to maximise net interest income.

The Group's interest rate sensitivity positions as at 31 December 2018, based on the contractual repricing or maturity dates, whichever earlier, is as follows:

	Up to three months AED'000	From three months to one year AED'000	From one year to three years AED'000	From three years to five years AED'000	Over five years AED'000	Non interest bearing AED'000	Total AED'000
ASSETS							
Cash and balances with central banks	3,574,083	61,524	-	-	-	3,250,095	6,885,702
Due from banks	3,681,853	7,331	-	-	-	507,328	4,196,512
Loans and advances measured at amortised cost	46,150,837	14,553,933	2,899,181	2,654,659	5,235,509	837,086	72,331,205
Investments	2,701,669	4,495,866	4,868,118	3,003,026	4,113,663	92,422	19,274,764
Investment properties	-	-	-	-	-	1,869,825	1,869,825
Other assets	13,731	20,190	8,507	-	-	1,991,912	2,034,340
Property and equipment	-	-	-	-	-	316,066	316,066
Goodwill	-	-	-	-	-	80,795	80,795
Total	56,122,173	19,138,844	7,775,806	5,657,685	9,349,172	8,945,529	106,989,209
LIABILITIES AND EQUITY							
Customers' deposits	31,814,995	27,720,639	3,774,523	112,562	25,010	13,991,900	77,439,629
Due to banks	3,091,924	150,030	27	745	9,869	147,777	3,400,372
Medium term borrowings	1,093,599	-	2,195,511	1,826,495	-	-	5,115,605
Other liabilities	-	-	-	-	-	2,077,321	2,077,321
Equity	2,000,000	-	-	-	-	16,956,282	18,956,282
Total	38,000,518	27,870,669	5,970,061	1,939,802	34,879	33,173,280	106,989,209
Total on statement of financial position interest rate sensitivity gap	18,121,655	(8,731,825)	1,805,745	3,717,883	9,314,293	-	-
Total off statement of financial position interest rate sensitivity gap	11,131,385	(2,130,013)	(3,383,627)	(2,539,739)	(3,078,006)	-	-
Cumulative interest rate sensitivity gap	29,253,040	18,391,202	16,813,320	17,991,464	24,227,751	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Market risk *(continued)*

3.3.1 Interest rate risk *(continued)*

The Group's interest rate sensitivity positions as at 31 December 2017, based on the contractual repricing or maturity dates, whichever earlier, is as follows:

	Up to three months	From three months to one year	From one year to three years	From three years to five years	Over five years	Non interest bearing	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
ASSETS							
Cash and balances with central banks	442,930	4,050,000	-	-	-	4,703,526	9,196,456
Due from banks	1,396,125	105,892	-	-	-	243,629	1,745,646
Loans and advances	44,350,722	16,130,805	2,445,450	3,871,977	3,291,211	1,047,140	71,137,305
Investments	3,471,454	4,167,921	4,829,788	4,124,537	4,398,573	74,336	21,066,609
Investment properties	-	-	-	-	-	2,040,269	2,040,269
Other assets	11,205	44,647	-	25,789	-	1,869,898	1,951,539
Property and equipment	-	-	-	-	-	298,862	298,862
Goodwill	-	-	-	-	-	81,418	81,418
Total	49,672,436	24,499,265	7,275,238	8,022,303	7,689,784	10,359,078	107,518,104
LIABILITIES AND EQUITY							
Customers' deposits	38,399,075	22,627,498	2,199,949	32,571	9,882	15,420,365	78,689,340
Due to banks	638,570	-	-	1,001	4,172	73,303	717,046
Medium term borrowings	4,217,409	81,487	-	2,192,329	-	-	6,491,225
Other liabilities	-	-	-	-	-	2,153,994	2,153,994
Equity	2,000,000	-	-	-	-	17,466,499	19,466,499
Total	45,255,054	22,708,985	2,199,949	2,225,901	14,054	35,114,161	107,518,104
Total on statement of financial position interest rate sensitivity gap	4,417,382	1,790,280	5,075,289	5,796,402	7,675,730	-	-
Total off statement of financial position interest rate sensitivity gap	10,339,093	(2,637,075)	(2,649,657)	(2,426,863)	(2,625,498)	-	-
Cumulative interest rate sensitivity gap	14,756,475	13,909,680	16,335,312	19,704,851	24,755,083	-	-

There is no change in the methods and assumptions used in presenting the interest rate sensitivity analysis for year 2018 and year 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Market risk *(continued)*

3.3.1 Interest rate risk *(continued)*

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Group assumes a fluctuation in interest rates of 25 basis points and estimates the following impact on the net interest income for the year and equity at that date:

	2018		2017	
	Net interest income AED'000	Market value of equity AED'000	Net interest income AED'000	Market value of equity AED'000
Fluctuation in yield				
25 bps increase	53,808	(74,896)	31,486	(107,462)
25 bps decrease	(53,808)	74,896	(31,486)	107,462

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on interest bearing assets of AED 98,044 million (2017: AED 97,159 million) and interest bearing liabilities and equity of AED 73,816 million (2017: AED 72,404 million). The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

3.3.2 Foreign currency risk

The Group is exposed to foreign currency risk through transactions in foreign currencies. The Group's transactional exposures give rise to foreign currency gains and losses that are recognised in profit or loss. These exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the Bank. The Group ensures that its net foreign currency exposure is kept at an acceptable level by buying and selling foreign currencies at spot rates when appropriate.

The following table shows the Group's exposure to foreign currencies as at 31 December 2018:

	Assets AED'000	Liabilities AED'000	Net cash position AED'000	Net forward position AED'000	Net long / (short) position AED'000
US Dollar*	39,885,067	26,081,753	13,803,314	(8,784,226)	5,019,088
Egyptian Pound	5,970,536	5,631,041	339,495	(9,315)	330,180
Kuwaiti Dinar	787,994	547,940	240,054	-	240,054
Chinese Yuan	106,272	42	106,230	(80,114)	26,116
Qatari Riyal	105,030	3,442	101,588	(100,879)	709
Swiss Franc	73,286	1,712	71,574	(71,266)	308
Japanese Yen	275,621	272,052	3,569	(3,371)	198
Euro	1,442,717	522,452	920,265	(920,105)	160
Saudi Riyal	337,228	2,941,241	(2,604,013)	2,603,205	(808)
UK Sterling	32,248	30,366	1,882	(2,751)	(869)
Others	39,913	6,144	33,769	(30,726)	3,043
	49,055,912	36,038,185	13,017,727	(7,399,548)	5,618,179

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Market risk *(continued)*

3.3.2 Foreign currency risk *(continued)*

The following table shows the Group's exposure to foreign currencies as at 31 December 2017:

	Assets	Liabilities	Net cash position	Net forward position	Net long / (short) position
	AED'000	AED'000	AED'000	AED'000	AED'000
US Dollar*	39,280,558	26,596,509	12,684,049	(2,553,088)	10,130,961
Egyptian Pound	4,977,488	4,582,942	394,546	(11,385)	383,161
Kuwaiti Dinar	643,791	383,864	259,927	-	259,927
Chinese Yuan	85,413	704	84,709	(84,579)	130
Qatari Riyal	120,543	3,816	116,727	(115,979)	748
Swiss Franc	151,630	379,236	(227,606)	230,894	3,288
Japanese Yen	98,935	163,143	(64,208)	64,375	167
Euro	1,811,381	718,044	1,093,337	(1,091,463)	1,874
Saudi Riyal	390,917	924,648	(533,731)	555,216	21,485
UK Sterling	65,633	58,339	7,294	(6,146)	1,148
Others	46,028	8,362	37,666	(36,615)	1,051
	47,672,317	33,819,607	13,852,710	(3,048,770)	10,803,940

* The exchange rate of AED is pegged against the US Dollar since November 1980 hence the Bank's exposure to US Dollar is limited to that extent.

Market risk is also assessed by measuring the impact of reasonable possible change in exchange rate movements. The table below illustrate the impact on net profit and equity of the Group due to change in exchange rate by 1%.

	2018		2017	
	Net profit	Equity	Net profit	Equity
	AED'000	AED'000	AED'000	AED'000
Increase in exchange rate by 1%				
USD	50,191	50,191	101,310	101,310
EGP	3,302	3,302	3,832	3,832
KWD	2,401	2,401	2,599	2,599
Decrease in exchange rate by 1%				
USD	(50,191)	(50,191)	(101,310)	(101,310)
EGP	(3,302)	(3,302)	(3,832)	(3,832)
KWD	(2,401)	(2,401)	(2,599)	(2,599)

The foreign exchange sensitivity set out above is for illustrative purposes only and employ simplified scenario. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of exchange rate movements.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Market risk *(continued)*

3.3.3 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

The following table estimates the sensitivity to a possible change in equity markets on profit or loss. The sensitivity of profit or loss is the effect of the assumed change in the reference equity benchmark on the fair value of investments carried at fair value through the profit or loss.

Investments designated at fair value through profit or loss	Assumed level of change	Impact on net income	
		2018	2017
	%	AED'000	AED'000
Reference equity benchmarks:			
UAE equity exchanges	5%	18	-
Other equity exchanges	5%	2,918	2,321
Net asset value of managed funds	5%	129	149

The effect on equity (as a result of a change in the fair value of equity instruments held as FVTOCI) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

FVTOCI investments	Assumed level of change	Impact on equity	
		2018	2017
	%	AED'000	AED'000
Reference equity benchmarks:			
UAE equity exchanges	5%	1,323	666
Other equity exchanges	5%	245	345

3.3.4 Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The effect on profit for one year, assuming 10% of repayable financial instruments were to be repaid at the beginning of the year, with all other variables held constant, is estimated at AED 52,025 thousand (2017: AED 39,830 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group'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 behaviour. Operational risks arise from all the Group's operations and are faced by all business entities.

The primary responsibility for risk identification, assessment, measurement and the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risks in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation 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

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit and results are submitted to the Audit Committee and senior management of the Group.

3.5 Fair value measurement

The Group's consolidated financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities measured at fair value through profit or loss, FVTOCI investments and financial liabilities designated at fair value through profit or loss, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at amortised cost or historical cost. These include the investments measured at amortised cost, loans and advances measured at amortised cost, deposits and other balances, due from banks, customers' deposits, due to banks and medium term borrowings.

The fair value of the Group's assets and liabilities is not materially different from the carrying value at 31 December 2018 since assets and liabilities are either short-term in nature, valued using quoted market prices or, in the case of loans and advances and deposits, frequently re-priced. The fair value of investments measured at amortised cost is disclosed in Note 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.5 Fair value measurement *(continued)*

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2018:

	Fair value through profit or loss	Fair value through other comprehensive income	Investments measured at amortised cost	Loans and receivables at amortised cost	Other amortised cost	Hedging derivatives	Carrying amount
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
FINANCIAL ASSETS							
Cash and balances with central banks	-	-	-	-	6,885,702	-	6,885,702
Due from banks	-	-	-	-	4,196,512	-	4,196,512
Loans and advances measured at amortised cost	-	-	-	72,331,205	-	-	72,331,205
Investments	309,863	17,797,893	1,167,008	-	-	-	19,274,764
Other assets	212,210	-	-	681,551	777,122	113,614	1,784,497
	522,073	17,797,893	1,167,008	73,012,756	11,859,336	113,614	104,472,680
FINANCIAL LIABILITIES							
Customers' deposits	-	-	-	-	77,439,629	-	77,439,629
Due to banks	-	-	-	-	3,400,372	-	3,400,372
Medium term borrowings	-	-	-	-	5,115,605	-	5,115,605
Other liabilities	84,435	-	-	-	1,550,592	62,329	1,697,356
	84,435	-	-	-	87,506,198	62,329	87,652,962

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.5 Fair value measurement *(continued)*

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2017:

	Held for trading AED '000	Designated at fair value through profit or loss AED'000	Available for sale AED'000	Held to maturity AED'000	Loans and receivables AED'000	Other amortised cost AED'000	Hedging derivatives AED'000	Carrying amount AED'000
FINANCIAL ASSETS								
Cash and balances with central banks	-	-	-	-	-	9,196,456	-	9,196,456
Due from banks	-	-	-	-	-	1,745,646	-	1,745,646
Loans and advances	-	-	-	-	71,137,305	-	-	71,137,305
Investments	1,526	52,128	17,696,435	3,316,520	-	-	-	21,066,609
Other assets	90,206	188,140	-	-	538,532	785,650	113,614	1,716,142
	91,732	240,268	17,696,435	3,316,520	71,675,837	11,727,752	113,614	104,862,158
FINANCIAL LIABILITIES								
Customers' deposits	-	-	-	-	-	78,689,340	-	78,689,340
Due to banks	-	-	-	-	-	717,046	-	717,046
Medium term borrowings	-	-	-	-	-	6,491,225	-	6,491,225
Other liabilities	84,923	188,140	-	-	-	1,461,778	62,329	1,797,170
	84,923	188,140	-	-	-	87,359,389	62,329	87,694,781

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.5 Fair value measurement *(continued)*

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique:

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted bid prices for identical assets or unadjusted quoted offer prices for identical liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.

Valuation techniques using observable inputs – Level 2

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs include financial instruments such as swaps and forwards which are valued using market standard pricing techniques and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable. The category includes derivative financial instruments such as certain OTC derivatives, commodity derivatives, foreign exchange spot and forward contracts and certain investment securities. These instruments are valued using the inputs observable in an active market. Valuation of the derivative financial instruments is made through discounted cash flow method using the applicable yield curve for the duration of the instruments for non-option derivatives and standard option pricing models such as Black Scholes and other valuation models for option derivatives.

Valuation techniques using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques. This category mainly includes investment properties and private equity instruments.

The carrying values of the investments in private equity instruments are adjusted using the latest available net book value; and

Investment properties classified as Level 3 are stated at fair value, which has been determined based on the valuation performed by independent professional valuers. The valuation methodologies considered by external valuers include Comparable Method and Residual Value Method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.5 Fair value measurement *(continued)*

Fair value hierarchy *(continued)*

The table below shows the hierarchy used by the Group for the assets and liabilities that are measured at fair value or for which fair value information is disclosed as at 31 December 2018:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets				
Investments measured at fair value through profit or loss	307,281	2,583	-	309,864
Investments measured at fair value through other comprehensive income	15,717,317	2,028,943	51,633	17,797,893
Derivative financial instruments	-	325,824	-	325,824
Other assets	-	-	-	-
Investment properties	-	-	1,869,825	1,869,825
	16,024,598	2,357,350	1,921,458	20,303,406
Liabilities				
Derivative financial instruments	-	146,764	-	146,764
Other liabilities	-	-	-	-
	-	146,764	-	146,764
For disclosure purposes				
Investments measured at amortised cost	976,872	174,485	-	1,151,357

The below table shows the hierarchy used by the Group for the assets and liabilities that are measured at fair value or for which fair value information is disclosed as at 31 December 2017:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets				
Held for trading investments	1,526	-	-	1,526
Financial assets designated at fair value through profit or loss	49,148	2,980	-	52,128
Available for sale investments	15,586,775	2,055,865	53,795	17,696,435
Derivative financial instruments	-	203,820	-	203,820
Other assets	-	188,140	-	188,140
Investment properties	-	-	2,040,269	2,040,269
	15,637,449	2,450,805	2,094,064	20,182,318

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.5 Fair value measurement *(continued)*

Fair value hierarchy *(continued)*

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Liabilities				
Derivative financial instruments	-	147,252	-	147,252
Other liabilities	-	188,140	-	188,140
	-	335,392	-	335,392
For disclosure purposes				
Held to maturity investments	3,300,745	30,453	-	3,331,198

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements (2017: Nil). Movement of financial assets measured based on the Level 3 hierarchy are as follows:

	2018 AED'000	2017 AED'000
Opening balance	2,094,064	2,086,554
Additions	84,261	40,116
Settlement/sale	(3,067)	(5,500)
Transfers	(21,956)	-
Net loss on fair valuation	(231,832)	(27,188)
Exchange differences	(12)	82
	1,921,458	2,094,064

4 Interest income

	2018 AED'000	2017 AED'000
Loans and advances measured at amortised cost	3,640,834	3,285,803
Due from banks	199,502	138,307
Investments measured at:		
- Fair value through other comprehensive income	672,726	424,048
- Amortised cost	126,371	164,288
- Fair value through profit or loss	-	414
	4,639,433	4,012,860

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

5 Interest expense

	2018 AED'000	2017 AED'000
Customers' deposits	**1,699,431**	1,375,201
Due to banks and medium term borrowings	**299,505**	192,878
	1,998,936	1,568,079

6 Income from Islamic financing

	2018 AED'000	2017 AED'000
Murabaha	**195,091**	185,949
Ijara	**100,904**	124,419
Mudaraba	**745**	2,020
Wakala	-	1,428
Others	**10,914**	7,157
	307,654	320,973

7 Net fee and commission income

	2018 AED'000	2017 AED'000
Fee and commission income:		
Credit related fees	**180,830**	171,843
Trade related fees	**167,652**	186,133
Retail fees	**143,804**	323,659
Account service charges	**84,008**	90,339
Brokerage income	**4,832**	5,696
Others	**43,488**	44,400
	624,614	822,070
Fee and commission expenses	**(71,228)**	(65,976)
	553,386	756,094

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

8 Other operating income

	2018 AED'000	2017 AED'000
Rental income	63,212	58,866
Expense recoveries	12,281	39,391
Other miscellaneous income	3,907	20,485
	79,400	118,742

9 Staff costs

The Group's contribution to the pension scheme in respect of UAE national employees amounted to AED 12,442 thousand (2017: AED 10,418 thousand).

The Bank and its subsidiaries operating in the UAE manage VESS for its employees. Employees contribute a certain fixed percentage of their basic salary to VESS and the Group contributes a matching amount. The amounts so collected are managed by the Bank. An employee is entitled to the Group's contribution and income thereon upon completion of a continuous period of employment of three years. During the year, the Group's contribution to VESS amounted to AED 14,535 thousand (2017: AED 13,195 thousand). At 31 December 2018, the funds managed by the Bank on behalf of the VESS amounted to AED Nil (2017: AED 188,140 thousand), as the Scheme's committee in December 2018 resolved to close the Scheme with effect from 1 January 2019 after selling all the investments and distributing the corpus to the Scheme holders.

10 Other operating expenses

	2018 AED'000	2017 AED'000
Occupancy costs	133,495	126,861
Repairs and maintenance	61,243	56,133
Communication	33,759	30,669
Advertising and promotion	12,435	15,115
Other miscellaneous expenses	122,298	116,554
	363,230	345,332

The above operating expenses include payment of AED 664 thousand (2017: AED 30,720 thousand) made towards social contribution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

11 Impairment charge on financial assets, net

	2018 AED'000	2017 AED'000
Impairment charge/(release) on loans and advances	**988,472**	998,063
Recovery of loans and advances	**(135,973)**	(192,470)
Impairment charge/(release) on balances with central banks	**(723)**	-
Impairment charge/(release) on due from banks	**(1,783)**	-
Impairment charge/(release) on investments measured at amortised cost	**2,613**	-
Impairment charge/(release) on investments measured at FVTOCI	**8,572**	-
Impairment charge/(release) on other assets	**(7,088)**	-
Impairment charge/(release) on contingent liabilities	**(27,607)**	(11,908)
	826,483	793,685

12 Cash and balances with central banks

	2018 AED'000	2017 AED'000
Cash on hand	**634,739**	772,787
Balances with central banks		
- Deposits and other balances	**763,594**	1,641,239
- Cash reserve deposits	**2,487,369**	2,732,430
- Certificates of deposit	**3,000,000**	4,050,000
	6,885,702	9,196,456
Less: Allowance for impairment	**-**	-
	6,885,702	9,196,456

Cash reserve deposits are not available for day-to-day operations to the Bank and its banking subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

13 Due from banks

	2018 AED'000	2017 AED'000
Demand	507,131	243,732
Overnight and short term placements	3,689,638	1,502,018
	4,196,769	1,745,750
Less: Allowance for impairment	(257)	(104)
	4,196,512	1,745,646

The table below shows the rating wise analysis of due from banks:

	2018 AED'000	2017 AED'000
Due from banks		
AAA to AA -	333,346	463,303
A+ to A -	1,938,663	796,733
BBB+ to BBB -	1,552,543	240,067
BB+ to BB -	197	830
B+ and below	2,452	242,764
Unrated	369,311	1,949
	4,196,512	1,745,646

The table below shows the analysis of due from banks amongst local and foreign banks:

	2018 AED'000	2017 AED'000
Local banks	1,634,622	940,937
Foreign banks	2,561,890	804,709
	4,196,512	1,745,646

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

14 Loans and advances measured at amortised cost

	2018 AED'000	2017 AED'000
Term loans	62,946,109	61,390,833
Overdrafts	6,297,841	6,905,938
Islamic financing	6,567,593	5,671,577
Others	316,848	279,611
	76,128,391	74,247,959
Less: Allowance for impairment	(3,797,186)	(3,110,654)
	72,331,205	71,137,305

The movement of gross exposure is as follows:

	2018			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
At 1 January	61,142,515	9,903,309	3,202,135	74,247,959
Net disbursements / (repayments)	3,805,854	(664,673)	(131,787)	3,009,394
Transfer from stage 1 to 2	(743,342)	743,342	-	-
Transfer from stage 1 to 3	(923,642)	-	923,642	-
Transfer from stage 2 to 1	2,709,768	(2,709,768)	-	-
Transfer from stage 2 to 3	-	(411,082)	411,082	-
Transfer from stage 3 to 1	7,524	-	(7,524)	-
Transfer from stage 3 to 2	-	27,087	(27,087)	-
Amounts written off	-	-	(1,108,989)	(1,108,989)
Foreign currency translation	(18,367)	(308)	(1,298)	(19,973)
At 31 December	65,980,310	6,887,907	3,260,174	76,128,391

Islamic financing

Loans and advances include the following Islamic financing contracts:

	2018 AED'000	2017 AED'000
Murabaha	3,544,963	2,994,016
Ijara	2,276,988	1,997,771
Mudaraba	92,651	3,408
Others	652,991	676,382
	6,567,593	5,671,577
Less: Allowance for impairment	(324,663)	(204,769)
	6,242,930	5,466,808

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

14 Loans and advances measured at amortised cost *(continued)*

The movement of Islamic financing contracts is as follows:

	2018			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
At 1 January	4,176,177	956,941	538,459	5,671,577
Net disbursements / (repayments)	1,081,842	(71,225)	(13,251)	997,366
Transfer from stage 1 to 2	(140,465)	140,465	-	-
Transfer from stage 1 to 3	(55,135)	-	55,135	-
Transfer from stage 2 to 1	46,837	(46,837)	-	-
Transfer from stage 2 to 3	-	(65,909)	65,909	-
Transfer from stage 3 to 1	7,302	-	(7,302)	-
Transfer from stage 3 to 2	-	13,352	(13,352)	-
Amounts written off	-	-	(101,350)	(101,350)
At 31 December	5,116,558	926,787	524,248	6,567,593

The gross Ijara and the related present value of minimum Ijara payments are as follows:

	2018 AED'000	2017 AED'000
Gross Ijara		
Less than one year	487,053	520,208
Between one and three years	602,040	730,212
Between three and five years	422,988	434,169
More than five years	1,203,917	785,542
	2,715,998	2,470,131
Less: deferred income	(439,010)	(472,360)
Net Ijara	2,276,988	1,997,771
Net present value of minimum Ijara payments		
Less than one year	1,029,939	454,108
Between one and three years	411,219	605,724
Between three and five years	286,448	358,161
More than five years	549,382	579,778
	2,276,988	1,997,771

In certain cases, the Group continues to carry classified doubtful debts and delinquent accounts on its books even after making 100% allowance for impairment. Interest is accrued where appropriate on these accounts for litigation purposes only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

14 Loans and advances measured at amortised cost *(continued)*

The movements in impairment allowance related to loans and receivables during the year are as follows:

	2018				2017		
	Stage 1 impairment allowance AED'000	Stage 2 impairment allowance AED'000	Stage 3 impairment allowance AED'000	Total impairment allowance AED'000	Collective impairment allowance AED'000	Specific impairment allowance AED'000	Total impairment allowance AED'000
At 1 January (as per IAS 39)	1,448,857	-	1,661,797	3,110,654	1,524,958	1,331,951	2,856,909
Effect of change in accounting policy for IFRS 9	(699,371)	1,032,353	482,582	815,564	-	-	-
	749,486	1,032,353	2,144,379	3,926,218	1,524,958	1,331,951	2,856,909
Charge for the year (net of write backs)	(198,455)	256,197	930,730	988,472	(73,034)	1,071,097	998,063
Transfers	-	-	-	-	(4,115)	4,115	-
Transfer from stage 1 to 2	(25,177)	25,177	-	-	-	-	-
Transfer from stage 1 to 3	(108,954)	-	108,954	-	-	-	-
Transfer from stage 2 to 1	271,522	(271,522)	-	-	-	-	-
Transfer from stage 2 to 3	-	(102,677)	102,677	-	-	-	-
Transfer from stage 3 to 1	-	-	-	-	-	-	-
Transfer from stage 3 to 2	-	12,202	(12,202)	-	-	-	-
Amounts written off	-	-	(1,108,989)	(1,108,989)	-	(747,222)	(747,222)
Foreign currency translation	(290)	(64)	(8,161)	(8,515)	1,048	1,856	2,904
	688,132	951,666	2,157,388	3,797,186	1,448,857	1,661,797	3,110,654

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

14 Loans and advances measured at amortised cost *(continued)*

The movements in impairment allowance related to Islamic financing contracts during the year are as follows:

	2018				2017		
	Stage 1 impairment allowance AED'000	Stage 2 impairment allowance AED'000	Stage 3 impairment allowance AED'000	Total impairment allowance AED'000	Collective impairment allowance AED'000	Specific impairment allowance AED'000	Total impairment allowance AED'000
At 1 January	64,312	-	140,457	204,769	63,665	130,885	194,550
Effect of change in accounting policy for IFRS 9	4,953	103,794	96,062	204,809	-	-	-
	69,265	103,794	236,519	409,578	63,665	130,885	194,550
Charge for the year (net of write backs)	(14,451)	(28,176)	59,062	16,435	647	32,772	33,419
Transfer from stage 1 to 2	(5,030)	5,030	-	-	-	-	-
Transfer from stage 1 to 3	(1,748)	-	1,748	-	-	-	-
Transfer from stage 2 to 3	-	(4,980)	4,980	-	-	-	-
Amounts written off	-	-	(101,350)	(101,350)	-	(23,200)	(23,200)
	48,036	75,668	200,959	324,663	64,312	140,457	204,769

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

15 Investments

The analysis of Group's investments as at 31 December 2018 (classified in accordance with IFRS 9) is as follows:

		Investments measured at fair value		
	Investments measured at amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
	AED'000	AED'000	AED'000	AED'000
Equity instruments:				
Quoted	-	23,044	56,848	79,892
Unquoted	-	51,633	-	51,633
Debt instruments:				
Quoted - fixed rate	1,004,706	15,218,255	250,433	16,473,394
Quoted - floating rate	-	476,018	-	476,018
Unquoted - fixed rate	168,435	-	-	168,435
Treasury bills	6,050	2,028,943	-	2,034,993
Investment in managed funds	-	-	2,583	2,583
	1,179,191	17,797,893	309,864	19,286,948
Less: Allowance for impairment	(12,184)	-	-	(12,184)
	1,167,007	17,797,893	309,864	19,274,764

The analysis of Group's investments as at 31 December 2017 (classified in accordance with IAS 39) is as follows:

		Non-trading investments			
	Trading investments	Designated at fair value through profit or loss	Available for sale	Held to maturity	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Equity instruments:					
Quoted	347	49,148	9,751	-	59,246
Unquoted	-	-	53,795	-	53,795
Debt instruments:					
Quoted - fixed rate	1,179	-	14,939,531	3,092,840	18,033,550
Quoted - floating rate	-	-	637,493	29,384	666,877
Unquoted - fixed rate	-	-	-	163,843	163,843
Treasury bills	-	-	2,055,865	30,453	2,086,318
Investment in managed funds	-	2,980	-	-	2,980
	1,526	52,128	17,696,435	3,316,520	21,066,609

Fair value of investments measured at amortised cost is AED 1,151 million (2017: AED 3,331 million).

15 Investments *(continued)*

The Group has hedged interest rate risks on certain fixed rate FVTOCI investments through interest rate swaps and has designated these as fair value hedges. The net positive fair value of these swaps was AED 104,428 thousand (2017: net positive fair value of AED 34,263 thousand). The hedge ineffectiveness gains and losses relating to these hedges were included in the consolidated statement of profit or loss.

Details of equity instruments purchased and sold during the year are as follows:

	2018 AED'000	2017 AED'000
Purchases	69,698	23,399
Sales	56,511	24,701

The table below shows the rating wise analysis of investments:

	2018 AED'000	2017 AED'000
Investments:		
AAA to AA -	8,574,220	7,779,504
A+ to A -	3,726,617	5,247,119
BBB+ to BBB -	2,690,512	3,076,219
BB+ to BB -	68,108	-
B+ and below	2,804,599	2,975,723
Unrated	1,410,708	1,988,044
	19,274,764	21,066,609

The Group enters into agreements to sell assets with a simultaneous commitment to repurchase them at a specified future date (repos) whereby the Group retains substantially all of the risks and rewards of ownership of the assets and accordingly, the assets are not derecognised. The Group has entered into repurchase agreements relating to FVTOCI securities with a fair value amounting to AED 1,820,899 thousand (31 December 2017: AED 272,191 thousand) and FVTPL securities with a fair value amounting to AED 12,860 thousand (31 December 2017: Nil). The related liability amounting to AED 1,745,271 thousand (31 December 2017: AED 274,525 thousand) is included in due to banks.

16 Investment properties

Investment properties are stated at fair value, which has been determined based on the valuation performed by independent professional valuers. The valuation methodologies considered by external valuers were as follows:

Development properties:

The fair values of development properties are based on residual value method which requires the use of estimates such as future cash flows from assets (comprising of selling and leasing rates, future revenue streams, construction costs and associated professional fees, and financing cost, etc.), targeted internal rate of return and developer's risk and targeted profit. These estimates are based on local market conditions existing at the end of the reporting period.

Apartments / Buildings:

The fair values of completed buildings are based on Comparable Method of valuation. The Comparable Method utilizes the evidence of transactions or current asking prices of similar sites in the immediate vicinity and, if appropriate, applies adjustments to the sales figures based on market research, discussion with independent agents.

The below table shows the hierarchy used by the Group for the assets that are measured at fair value or for which fair value information is disclosed as at:

	2018	2017
	AED'000	AED'000
Assets		
Investment properties	**1,869,825**	2,040,269
	1,869,825	2,040,269

The below table shows the movement in investment properties:

	2018	2017
	AED'000	AED'000
At 1 January	**2,040,269**	2,029,018
Additions	**83,344**	38,439
Transfer to other assets	**(21,956)**	-
Net loss on investment properties	**(231,832)**	(27,188)
At 31 December	**1,869,825**	2,040,269

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

16 Investment properties *(continued)*

Details of rental income and direct operating expenses relating to investment properties are as follow:

	2018 AED'000	2017 AED'000
Rental income	61,734	56,832
Operating expenses	19,754	19,229

The table below shows relevant information on the valuation of investment properties categorised under level 3:

Property	Valuation technique	Significant unobservable inputs	Sensitivity
Development properties	Residual value method	Future cash flows from assets (comprising of selling and leasing rates, future revenue streams, construction costs and associated professional fees, and financing cost, etc.), targeted internal rate of return and developer's risk and targeted profit.	A slight increase/decrease in future cash flows would result to a significant increase/decrease in value.
Apartments/ Buildings	Comparable method	Transactions or current asking prices of similar sites in the immediate vicinity and, if appropriate, applies adjustments to the sales figures based on market research, discussion with independent agents. Value for apartments and retail units adopted after appropriate adjustments ranged from AED 650 to AED 1,250 (2017: ranged from AED 700 to AED 1,450) per square foot and AED 900 to AED 1,050 (2017: ranged from AED 1,675 to AED 3,100) per square foot, respectively.	A slight increase/decrease in unit value used would result in a significant increase/decrease in value.

17 Other assets

	2018 AED'000	2017 AED'000
Acceptances	764,543	712,585
Interest receivable	634,136	499,087
Positive fair value of derivatives (Note 31)	325,824	203,820
Investment in associates	103,033	107,069
Profit receivable on Islamic financing	47,415	38,701
Collaterals pending sale	26,698	10,119
VESS	-	188,140
Others	132,691	192,018
At 31 December	2,034,340	1,951,539

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

18 Property and equipment

	Capital work in progress 2018 AED'000	Freehold land and buildings 2018 AED'000	Furniture, equipment and motor vehicles 2018 AED'000	Office improvements 2018 AED'000	Computer hardware 2018 AED'000	Computer software 2018 AED'000	Total 2018 AED'000	Total 2017 AED'000
Cost:								
At 1 January	57,163	220,576	109,323	205,395	175,800	233,257	1,001,514	917,028
Additions	61,819	48	7,609	14,184	7,436	3,317	94,413	84,943
Transfers/adjustments	(35,136)	-	2,746	8,515	9,086	14,789	-	-
Translation adjustment	(71)	(514)	(1,320)	(401)	(185)	(137)	(2,628)	10,172
Write off/disposals	(398)	-	(4,351)	(34)	(15,486)	(5,318)	(25,587)	(10,629)
	83,377	220,110	114,007	227,659	176,651	245,908	1,067,712	1,001,514
Accumulated depreciation:								
At 1 January	-	147,066	77,115	169,386	135,673	173,412	702,652	636,327
Charge for the year	-	3,736	9,456	16,080	16,532	27,843	73,647	72,870
Transfers/adjustments	-	-	(33)	31	2	-	-	-
Translation adjustment	-	(75)	(745)	(222)	(83)	(61)	(1,186)	3,514
Write off/disposals	-	-	(4,025)	(33)	(15,486)	(3,923)	(23,467)	(10,059)
At 31 December	-	150,727	81,768	185,242	136,638	197,271	751,646	702,652
	83,377	69,383	32,239	42,417	40,013	48,637	316,066	298,862

The Bank's head office building (cost: AED 67 million) is constructed on land granted to the Bank by the Government of Abu Dhabi, which is recorded at nil value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

19 Goodwill

	2018 AED'000	2017 AED'000
Cost		
At 1 January	81,418	75,465
Translation adjustment	(623)	5,953
At 31 December	80,795	81,418

In 2006, the Group acquired control of UNB-E, which became a subsidiary of the Group and has since been consolidated. The acquisition has been initially accounted for using the purchase method of accounting, as required by IFRS 3: Business Combinations based on the fair value of assets and liabilities. The excess of the cost of acquisition over the fair value of the Bank's share of identifiable assets, liabilities and contingent liabilities of UNB-E at the date of acquisition has been accounted as Goodwill. Goodwill is attributable to the significant synergies expected to arise from the development of UNB-E within UNB Group.

Goodwill is stated at cost less any accumulated impairment losses if any, which are charged to profit or loss. An impairment test for goodwill is carried out annually or more frequently if events or changes in the circumstances indicate that the carrying value may be impaired.

In line with the requirements of IAS 36: Impairment of Assets, the management carried out an annual impairment test for goodwill in 2018. The methodology being carried out to test impairment of goodwill is in accordance with the IAS 36. The recoverable amount has been computed as the higher of a cash generating unit (or group of cash generating units) fair value less costs of disposal (FVLCD) and its value in use. The value in use is being measured by discounting the future cash flows expected based on actual operating results by applying an appropriate discount rate, whereas the FVLCD has been computed by applying adjusted market multiples based on comparable banks and recent comparable transactions. For the purposes of internal management reports, UNB – E operations are considered as one cash generating unit.

The main assumptions for the value in use computation are the cash flow estimates, growth rates and the discount rates. The management carried out an impairment test for goodwill in 2018 based on the assumptions that business of UNB-E will grow in line with the strategic plan forecast for five years. The long term growth assumptions are in line with the published industry research. The terminal growth rate of 2% (2017: 2%) has been assumed which is in line with the long term growth rate.

The recoverable amount of goodwill has been calculated based on the value in use. Value in use was determined by discounting the future cash flows expected to be generated. A discount rate of 20% p.a. (2017: 20% p.a.) was used for discounting the cash flows. Discount rates reflect the current market assessment of the risk.

Sensitivity to changes in assumptions was carried out assuming the growth rate lower by 1% and also assuming the discount rate higher by 1% and based on the results, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to exceed their recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

20 Customers' deposits

	2018 AED'000	2017 AED'000
Time deposits	54,654,497	57,027,858
Current and call deposits	12,127,055	13,687,096
Islamic deposits	8,029,138	5,706,775
Saving accounts	1,603,260	1,583,331
Sundry deposits	1,025,679	684,280
	77,439,629	78,689,340

Analysis of customers' deposits by sector is as follows:

	2018 AED'000	2017 AED'000
Corporate	29,180,411	29,021,442
Sovereign	24,009,811	26,538,471
Public Sector	14,746,122	13,902,860
Retail	9,503,285	9,226,567
	77,439,629	78,689,340

21 Due to banks

	2018 AED'000	2017 AED'000
Overnight and short term placements	1,880,092	349,119
Deposits	1,372,502	281,381
Demand	147,778	86,546
	3,400,372	717,046

22 Medium term borrowings

	2018 AED'000	2017 AED'000
Euro medium term notes	5,115,605	3,742,042
Term loan	-	2,749,183
	5,115,605	6,491,225

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

22 Medium term borrowings *(continued)*

The table below shows the currency and interest rate details of the medium term borrowings:

	Maturity	*Fixed/Floating*	*Interest rate*	2018 AED'000	2017 AED'000
Euro medium term notes					
CHF	March 2018	Floating	3 month CHF Libor + 0.98% margin	-	376,969
JPY	November 2018	Fixed	1%	-	81,487
USD	October 2021	Fixed	2.75%	2,195,510	2,192,329
USD	February 2022	Floating	3 month USD Libor + 1.40% margin	1,093,600	1,091,257
USD	March 2023	Fixed	4%	1,826,495	-
Term loan					
USD	October 2018	Floating	3 month USD Libor + 0.75% margin	-	2,749,183
				5,115,605	6,491,225

Term loan agreement contained covenants related to minimum capital adequacy ratio requirements in line with Basel II framework as implemented by the Central Bank of the UAE.

The Group had hedged certain portion of term loan bearing floating interest rate risks using interest rate swaps and has designated these swaps as cash flow hedges. The net positive fair value of these swaps was AED Nil (2017: net positive fair value of AED 16,253 thousand).

23 Other liabilities

	2018 AED'000	2017 AED'000
Acceptances	764,543	712,585
Interest payable	544,116	458,108
Negative fair value of derivatives (Note 31)	146,764	147,252
Gratuity payable	145,285	133,072
Expenses payable	79,450	40,666
Staff related provisions	75,651	84,783
Profit payable on Islamic deposits	65,704	62,205
Payment orders issued	58,567	81,688
Provision for contingent liabilities [Note 28(b)]	37,406	10,818
Deferred income	28,805	33,686
VESS	-	188,140
Others	131,030	200,991
	2,077,321	2,153,994

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

23 Other liabilities *(continued)*

The Group provides gratuity benefits to its eligible employees in the UAE. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2018 by a registered actuary in the UAE. The present value of the defined benefit obligation, and the related current and past service cost, were measured using the Projected Unit Credit Method.

The following key assumptions were used to value the liabilities:

	2018	2017
Discount rate	**3.50% – 4.25% per annum**	2.75% - 3.75% per annum
Salary increase rate	**5.0% per annum**	5.0% per annum

Movements in gratuity payable during the year were as follows:

	2018 AED'000	2017 AED'000
At 1 January	**133,072**	116,429
Items recognised in profit or loss:		
- Service cost	**14,365**	13,314
- Interest cost	**4,895**	4,224
Items recognised in Other comprehensive income:		
- Loss on account of change in assumptions	**2,511**	5,922
Benefits paid	**(9,558)**	(6,817)
At 31 December	**145,285**	133,072

The table below shows the sensitivity of defined benefit obligation payable to changes in key assumptions:

	2018		2017	
	+50 bps AED'000	**-50 bps AED'000**	+50 bps AED'000	-50 bps AED'000
Sensitivity to discount rate	**(4,513)**	**4,791**	(4,199)	4,466
Sensitivity to salary increase rate	**4,771**	**(4,539)**	4,435	(4,212)

24 Share capital

The authorised share capital of the Bank is 5,000,000 thousand shares of AED 1 each (2017: 5,000,000 thousand shares of AED 1 each). The issued and paid up share capital of the Bank is 2,751,426 thousand shares of AED 1 each (2017: 2,751,426 thousand shares of AED 1 each).

Cash dividend of AED 0.20 per share amounting to AED 550,285 thousand (2017: Cash dividend of AED 0.20 per share amounting to AED 550,285 thousand) was paid after the shareholder's approval in the Annual General Meeting held on 11 March 2018 (2017: Annual General Meeting held on 8 March 2017).

The Board of Directors in their meeting held on 12 February 2019 proposed a cash dividend of AED 0.20 per share amounting to AED 550,285 thousand, subject to the approval of the shareholders in the Annual General Meeting.

25 Legal and statutory reserves

Legal reserve: In accordance with Article 82 of the Union Law No. 10 of 1980, 10% of annual net profit is transferred to a legal reserve until this reserve equals 50% of the paid up share capital. The reserve is not available for distribution.

Statutory reserve: As required by Article 239 of the U.A.E. Federal Law No. (2) of 2015, 10% of annual net profit is transferred to the statutory reserve until this reserve equals 50% of the paid up share capital. The reserve is not available for distribution.

During the year, the Bank has transferred AED 6,281 thousand (2017: AED 22,816 thousand) to legal and statutory reserves. The transfer in the current year is in respect of subsidiaries.

26 Tier I capital notes

In February 2009, the Bank issued Tier I capital notes to the Department of Finance, Government of Abu Dhabi, with a principal amount of AED 2 billion (the "Capital Notes"). Issuance of these capital notes was approved by the Bank's Board of Directors in February 2009. These capital notes bear floating interest rate of 6 months EIBOR plus 2.3% p.a.

The Capital Notes are non-voting, non-cumulative perpetual securities, and are callable subject to certain conditions. The Bank may, at its sole discretion, elect not to make an interest payment. During the year, interest amounting to AED 86,672 thousand was paid (2017: AED 78,022 thousand) and shown in the consolidated statement of changes in equity.

27 Non-controlling interests

The table below shows the details of share of non-controlling interest:

	2018 AED'000	2017 AED'000
Non-controlling interests share in (loss) / profit for the year	(5,093)	12,435
Non-controlling interests share in other comprehensive (loss)/income for the year	(5,235)	13,838
Accumulated non-controlling interests	149,321	170,392
Non-controlling interests share in cash flows for the year	23,403	(82,885)

During the year, dividend of AED 6,370 thousand (2017: AED 6,370 thousand) was paid to non-controlling interests.

The table below shows the summarised financial information of the subsidiaries which have non-controlling interest:

	2018 AED'000	2017 AED'000
Total Assets	11,279,297	10,562,170
Total Liabilities	9,563,791	8,666,173
Total Equity	1,715,507	1,895,997
Profit for the year	10,408	156,401

28 Commitments and contingencies

(a) Loans and advances commitments

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved credit facilities.

	2018 AED'000	2017 AED'000
Loans and advances commitments – revocable	10,115,048	11,936,820
Loans and advances commitments – irrevocable	3,780,840	2,471,487
	13,895,888	14,408,307

Irrevocable commitments to extend credit represent contractual commitments to make loans and advances. Revocable commitments to extend credit represent commitments to make loan and advances which can be cancelled by the Bank unconditionally without any contractual obligations. Commitments generally have fixed expiry dates or other termination clauses. Outstanding loans and advances commitments have commitment periods that do not usually extend beyond a period of one year.

(b) Contingencies

The Group provides letters of credit and letters of guarantee to guarantee the performance of customers to third parties. The Group commits to make payments on behalf of customers contingent upon the production of documents or the failure of the customer to perform under the terms of the specified contract.

The contractual amounts of contingent liabilities are set out in the following table by category. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if coun-terparties failed completely to perform as contracted.

	2018 AED'000	2017 AED'000
Letters of credit	2,555,226	2,142,403
Letters of guarantee	27,077,818	29,106,444
	29,633,044	31,248,847

The Group has recognised impairment allowance of AED 37,406 thousand (2017: AED 10,818 thousand) on letters of guarantee which has been included in other liabilities.

The movement in impairment allowance for contingencies is as follows:

	2018 AED'000	2017 AED'000
At 1 January	10,818	22,406
Effect of change in accounting policy for IFRS 9	54,205	-
At 1 January (restated as per IFRS 9)	65,023	22,406
Release for the year (net of charges)	(27,607)	(11,908)
Foreign currency translation	(10)	320
At 31 December	37,406	10,818

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

28 Commitments and contingencies *(continued)*

(b) Contingencies *(continued)*

Commitments and contingent liabilities, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. The Bank's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table above. The related fees and provisions for probable losses are recognised in the consolidated statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

The table below shows the contractual maturities of contingencies which have been determined on the basis of the remaining period to maturity as at the reporting date. It does not take account of the effective maturities as indicated by the early call of the contingencies.

The maturity profile of contingencies at 31 December 2018:

	Up to three months AED'000	From three months to one year AED'000	From one year to three years AED'000	From three years to five years AED'000	Over five years AED'000	Total AED'000
ASSETS						
Letters of credit	1,848,433	622,138	84,655	-	-	2,555,226
Letters of guarantee	6,000,547	18,424,630	2,336,672	132,644	183,325	27,077,818
Total	7,848,980	19,046,768	2,421,327	132,644	183,325	29,633,044

The maturity profile of contingencies at 31 December 2017:

	Up to three months AED'000	From three months to one year AED'000	From one year to three years AED'000	From three years to five years AED'000	Over five years AED'000	Total AED'000
ASSETS						
Letters of credit	1,127,775	929,352	85,276	-	-	2,142,403
Letters of guarantee	5,282,100	19,115,026	4,065,249	384,046	260,023	29,106,444
Total	6,409,875	20,044,378	4,150,525	384,046	260,023	31,248,847

(c) Operating lease commitments

Where the Group is a lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2018 AED'000	2017 AED'000
Not later than one year	25,331	17,798
Later than one year and not later than three years	23,562	20,191
Later than three years and not later than five years	2,232	-
	51,125	37,989

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

28 Commitments and contingencies *(continued)*

(d) Other commitments

	2018 AED'000	2017 AED'000
Capital expenditure commitments	**69,789**	55,692
Investment properties commitments	**135,994**	219,338
	205,783	275,030

29 Taxation

The Group is not liable to any income tax in the UAE as there is no income tax in the UAE for locally incorporated entities. The Group is liable to the income tax in respect of its subsidiary operating in the Arab Republic of Egypt and the branch in the Qatar Financial Centre, the State of Qatar.

	2018 AED'000	2017 AED'000
Consolidated statement of financial position:		
Deferred tax asset	**198**	197
Deferred tax liability	**1,508**	52
Consolidated statement of profit or loss:		
Tax expense		
Current year	**58,923**	44,569
Prior years	**(966)**	515
	57,957	45,084

UNB – E

As at 31 December 2018, UNB-E is subject to tax of 22.5% (2017: 22.5%) on taxable income in the Arab Republic of Egypt. For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be at 51.50% (2017: 39.43%).

The tax assessment up to 2008 has been finalised with the tax authorities. The tax assessments in respect of the financial years ended 31 December 2009 to 31 December 2017 is yet to be completed by the tax authorities.

UNB – Qatar

The Branch in the State of Qatar is subject to tax at 10% on taxable income. For the purpose of determining the tax expenses for the year, the accounting profit has been adjusted for items relating to both income and expenses. The average effective tax rate is Nil (2017: Nil) due to losses incurred during the year.

UNB – China

The Branch in People's Republic of China is subject to tax at 25% on taxable income. For the purpose of determining the tax expenses for the year, the accounting profit has been adjusted for items relating to both income and expenses. The average effective tax rate is Nil (2017: Nil) due to losses incurred during the year.

The Group is responsible for any tax liability that may arise from the outstanding assessments of its subsidiary and Branches.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

29 Taxation *(continued)*

The tax reconciliation for the year ended 31 December 2018 and 31 December 2017 is as follows:

	2018 AED'000	2017 AED'000
Accounting Profit before taxation as reported by subsidiary/branch	101,683	127,321
IFRS adjustments to profit reported by subsidiary/branch	(2,351)	(9,401)
Total accounting profit	99,332	117,920
Tax calculated on above accounting profit before taxation as reported by subsidiary/branch	25,746	27,726
Tax adjustments:		
- Expenses not deductible for tax purpose	1,070	3,412
- Income not subject to tax	(1,351)	(1,810)
- Additional tax on Treasury bills and government bonds	32,000	13,366
- Timing difference on account of depreciation and provisions	1,458	1,875
- Adjustment pertaining to prior years	(966)	515
	57,957	45,084

30 Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following consolidated statement of financial position amounts:

	2018 AED'000	2017 AED'000
Cash and balances with central banks	6,885,702	9,196,456
Treasury bills	2,034,993	2,086,318
Due from banks	4,196,512	1,745,646
Due to banks	(3,400,372)	(717,046)
	9,716,835	12,311,374
Less: Original maturities of more than 3 months		
Cash and balances with central banks	2,451,557	3,232,430
Treasury bills	1,378,002	2,085,683
Due from banks	192,406	641,657
Due to banks	(161,116)	(6,940)
	5,855,986	6,358,544

31 Derivatives

In the ordinary course of business the Group 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 price in one or more underlying financial instrument, reference rate or index. The Group uses the following derivative financial instruments:

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in over-the-counter market.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

The table below shows the contractual value of forward foreign exchange contracts, notional amount of currency swaps and interest rate swaps and fair value of derivative financial instruments as at 31 December 2018 and 31 December 2017.

31 December 2018	Contractual/ notional amount AED'000	Positive fair value AED'000	Negative fair value AED'000	Net fair value AED'000
Derivatives held for trading:				
Forward foreign exchange contracts	11,264,393	14,210	(3,215)	10,995
Interest rate swaps	6,282,587	102,276	(54,134)	48,142
Cross currency swaps	239,460	15,943	(3,577)	12,366
FX time options	21,525	90	(57)	33
Commodities – Forwards	358,828	17,054	(16,831)	223
	18,166,793	149,573	(77,814)	71,759
Derivatives held as fair value hedge:				
Interest rate swaps	11,773,591	176,251	(68,950)	107,301
Derivatives held as cash flow hedge:				
Interest rate swaps	-	-	-	-
	29,940,384	325,824	(146,764)	179,060
31 December 2017				
Derivatives held for trading:				
Forward foreign exchange contracts	10,814,028	25,816	(20,590)	5,226
Interest rate swaps	4,868,355	55,840	(24,518)	31,322
Cross currency swaps	775,767	8,550	(38,748)	(30,198)
FX time options	21,462	-	(1,067)	(1,067)
Commodities - Forwards	-	-	-	-
	16,479,612	90,206	(84,923)	5,283
Derivatives held as fair value hedge:				
Interest rate swaps	7,940,054	97,361	(62,329)	35,032
Derivatives held as cash flow hedge:				
Interest rate swaps	2,387,450	16,253	-	16,253
	26,807,116	203,820	(147,252)	56,568

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

31 Derivatives *(continued)*

The notional amount is the amount of a derivative's underlying asset or liability, reference rate and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor the credit risk.

The table below shows the remaining period to maturity of derivative financial instruments as at 31 December 2018:

	Contractual / notional amounts					
	Up to 3 months AED'000	3 months –1 year AED'000	1-3 years AED'000	3-5 years AED'000	Over 5 years AED'000	Total AED'000
Derivatives held for trading:						
Forward foreign exchange contracts	3,357,487	7,814,331	92,575	-	-	11,264,393
Interest rate swaps	-	-	663,764	2,037,321	3,581,502	6,282,587
Cross currency swaps	75,512	89,476	-	74,472	-	239,460
FX time options	9,009	3,368	9,148	-	-	21,525
Commodities – Forwards	13,838	344,990	-	-	-	358,828
	3,455,846	8,252,165	765,487	2,111,793	3,581,502	18,166,793
Derivatives held as fair value hedge:						
Interest rate swaps	843,266	2,130,013	3,289,660	2,544,122	2,966,530	11,773,591
Derivatives held as cash flow hedge:						
Interest rate swaps	-	-	-	-	-	-
Total	4,299,112	10,382,178	4,055,147	4,655,915	6,548,032	29,940,384

The table below shows the remaining period to maturity of derivative financial instruments as at 31 December 2017:

	Contractual / notional amounts					
	Up to 3 months AED'000	3 months -1 year AED'000	1-3 years AED'000	3-5 years AED'000	Over 5 years AED'000	Total AED'000
Derivatives held for trading:						
Forward foreign exchange contracts	5,590,274	4,860,981	362,773	-	-	10,814,028
Interest rate swaps	-	68,869	367,300	558,423	3,873,763	4,868,355
Cross currency swaps	391,836	144,471	164,988	74,472	-	775,767
FX time options	7,072	554	13,836	-	-	21,462
Commodities - Forwards	-	-	-	-	-	-
	5,989,182	5,074,875	908,897	632,895	3,873,763	16,479,612
Derivatives held as fair value hedge:						
Interest rate swaps	161,612	268,129	2,704,438	2,352,391	2,453,484	7,940,054
Derivatives held as cash flow hedge:						
Interest rate swaps	-	2,387,450	-	-	-	2,387,450
Total	6,150,794	7,730,454	3,613,335	2,985,286	6,327,247	26,807,116

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

31 Derivatives (continued)

Derivatives held as fair value hedge

The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management strategy by taking offsetting positions in order to reduce its own exposure to fluctuations in exchange and interest rates. The Group uses interest rate swaps, to hedge against the changes in fair value arising from specifically identified interest bearing investments and loans and advances measured at amortised cost. The net hedge ineffectiveness loss recognised in the consolidated profit or loss amounted to AED 29,167 thousand (2017: gain of AED 10,045 thousand).

Derivatives held as cash flow hedge

The Group uses interest rate swaps to hedge against the cash flow risk arising on floating rate term borrowing. The Group has substantially matched the critical terms of the derivatives to have an effective hedge relationship.

32 Related party transactions

A party is related to the Group if:

i. directly, or indirectly through one or more intermediaries, is controlled by, or is under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries); has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

ii. the party is an associate of the Group;

iii. the party is a joint venture in which the Group is a venturer;

iv. the party is a member of the key management personnel of the Group or its parent;

v. the party is a close member of the family of any individual referred to in (i) or (iv);

vi. 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 individual referred to in (iv) or (v); or

vii. the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

In the case of the Group, related parties, as defined in International Accounting Standard No. 24: Related Party Disclosures, include the Government of Abu Dhabi (Ultimate controlling party and its related entities), directors and their related entities and key management of the Group and their related entities. Banking transactions are entered into with related parties on terms and conditions approved by either the Group's management and/or Directors. The Group engages in transactions with related parties only on arm's length terms and in accordance with relevant laws and regulations.

Directors are expected to avoid any action, position or interest that conflict with an interest of the Group. Details of all transactions in which a Director and/or related parties might have actual or potential conflicts are provided to the Board of Directors for their review and approval. When a potential conflict of interest arises, Directors concerned neither participates in the discussions nor exercise any influence over other members of the Board. If a major shareholder or a Director has any conflict of interests with any matter to be considered by the Board of Director and the Board of Directors determines that such a matter is significant, the decision thereon by the Board of Directors shall be made in the presence of all Directors and in the absence of the interested Director's vote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

32 Related party transactions *(continued)*

The significant balances included in the consolidated financial statements are as follows:

	Major shareholders, Directors and their related entities AED'000	Key management AED'000	Associates AED'000	Total AED'000
31 December 2018				
Due from banks	17,583	-	-	17,583
Loans and advances measured at amortised cost	7,910,093	1,971	-	7,912,064
Investments	7,480,306	-	106,100	7,586,406
Other assets	269,096	5	-	269,101
Customers' deposits	25,787,889	3,496	105,693	25,897,078
Due to Banks	177,753	-	-	177,753
Other liabilities	290,442	7	91	290,540
Tier 1 capital notes	2,000,000	-	-	2,000,000
Commitments and contingencies	2,957,856	-	-	2,957,856
Derivatives (contractual/notionalamounts)	12,302,387	-	-	12,302,387
Post-retirement benefits payable	-	6,584	-	6,584
31 December 2017				
Due from banks	375,993	-	-	375,993
Loans and advances measured at amortised cost	9,767,923	6,595	-	9,774,518
Investments	7,036,326	-	110,136	7,146,462
Other assets	168,945	14	-	168,959
Customers' deposits	30,982,907	556	199,007	31,182,470
Due to Banks	807,140	-	-	807,140
Other liabilities	241,356	1	139	241,496
Tier 1 capital notes	2,000,000	-	-	2,000,000
Commitments and contingencies	3,087,440	-	-	3,087,440
Derivatives (contractual/notional amounts)	10,259,591	-	-	10,259,591
Post-retirement benefits payable	-	12,456	-	12,456

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

32 Related party transactions *(continued)*

The significant transactions with related parties included in these consolidated financial statements are as follows:

	Major shareholders, Directors and their related entities AED'000	Key management AED'000	Associates AED'000	Total AED'000
For the year ended 31 December 2018				
Interest income	535,509	65	-	535,574
Profit income	962	-	-	962
Interest expense	542,116	88		542,204
Profit expense	15,037	-	6,240	21,277
Net fee and commission income	25,591	-	-	25,591
Net gain from dealing in foreign currencies and derivatives	90,116	-	-	90,116
Other operating expenses	-	-	1,045	1,045
Share in (loss) / profit of associates	-	-	(3,944)	(3,944)
Interest on Tier 1 capital notes	86,672	-	-	86,672
Directors' remuneration	7,780	-	-	7,780
Salary and benefits	-	35,236	-	35,236
Post-retirement benefits	-	1,779	-	1,779
For the year ended 31 December 2017				
Interest income	461,003	181	-	461,184
Profit income	1,428	-	-	1,428
Interest expense	562,619	11	-	562,630
Profit expense	24,130	-	3,633	27,763
Net fee and commission income	30,092	9	-	30,101
Net gain from dealing in foreign currencies and derivatives	41,867	-	-	41,867
Share in (loss) / profit of associates	-	-	1,728	1,728
Interest on Tier 1 capital notes	78,022	-	-	78,022
Directors' remuneration	7,546	-	-	7,546
Salary and benefits	-	34,340	-	34,340
Post-retirement benefits	-	1,802	-	1,802

Impairment loss recognised in profit or loss during the year does not include any impairment charge for loans and advances extended to related parties (2017: Nil). At 31 December 2018, there are no impaired loans and advances from the related parties (2017: Nil).

Interest rates on loans and advances to related parties during the year ended 31 December 2018 ranged from 1.4% to 16% per annum (2017: 1.3 % to 16.5% per annum). Interest rates on deposits from related parties during the year ended 31 December 2018 ranged from 0% to 6.0% per annum (2017: 0% to 3.25% per annum).

Fees and commissions rates on transactions with related parties during the year ended 31 December 2018 ranged from 0% to 3.0% per annum (2017: 0% to 3% per annum).

33 Operating segments

The Group is organised into following major operating segments:

Corporate Banking offers a wide range of services and products to diverse enterprises and industrial sectors, both in the public and private sectors.

Consumer Banking provides products and services to the Retail, High net worth individuals and SME customers through its focused approach that realises the banking needs and requirements of the customers and includes equity brokerage services, asset management and merchant banking.

Islamic Banking comprises of Islamic Banking Group (ISBG) of the Bank and AWFC. ISBG and AWFC provide Sharia compliant Islamic finance and investment products.

Treasury and Investment Banking comprises of Financial Institutions, Syndications and Structured Finance and Treasury and Investments. Financial Institutions undertakes the correspondent banking business of the Bank and maintains assets of financial institutions. Syndications and Structured Finance provides structured funding solutions on syndicated and project finance transactions and houses the bank's international syndicated assets.

Treasury and Investments provides support to other businesses for funding and foreign exchange and at the same time manages the proprietary positions/trading and liquidity management.

International and unallocated includes UNB-E, overseas branches in Kuwait, Qatar and China and certain unallocated items held centrally in the Head Office as these are not significantly material.

Inter segmental transactions are conducted at rates agreed by management and / or directors. Interest is charged or credited to units and business segments either at contracted or pool rates, both of which approximate the replacement cost of funds.

The following table presents segmental income, expenses, profit and capital expenditure for the year ended 31 December 2018:

	Corporate banking AED'000	Consumer banking AED'000	Islamic banking AED'000	Treasury and Investment banking AED'000	International and unallocated AED'000	Total AED'000
Net interest income and income from Islamic financing	904,982	952,067	168,927	351,595	420,683	2,798,254
Other operating income	261,449	201,884	(132,860)	139,674	43,651	513,798
Operating income	1,166,431	1,153,951	36,067	491,269	464,334	3,312,052
Other operating expenses	(218,301)	(638,948)	(109,785)	(78,416)	(122,936)	(1,168,386)
Depreciation	(13,177)	(29,227)	(3,888)	(5,743)	(21,612)	(73,647)
Operating profit	934,953	485,776	(77,606)	407,110	319,786	2,070,019
Impairment charge on financial assets, net	(170,311)	(468,508)	(13,505)	(8,837)	(165,322)	(826,483)
Income tax expense	-	-	-	-	(57,957)	(57,957)
Profit for the year	764,642	17,268	(91,111)	398,273	96,507	1,185,579
Segment capital expenditure	2,425	7,896	5,771	140	51,498	67,730

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

33 Operating segments *(continued)*

The table below presents segmental assets and liabilities as at 31 December 2018:

	Corporate banking	Consumer banking	Islamic banking	Treasury and Investment banking	International and unallocated	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Reportable segment assets	40,138,516	18,792,199	10,995,453	27,164,194	9,898,847	106,989,209
Reportable segment liabilities	31,828,497	12,186,426	8,578,690	26,583,081	8,856,233	88,032,927

The following table presents segmental income, profit, expenses and capital expenditure for the year ended 31 December 2017:

	Corporate banking	Consumer banking	Islamic banking	Treasury and Investment banking	International and unallocated	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Net interest income and income from Islamic financing	875,647	1,006,499	188,647	186,197	389,777	2,646,767
Other operating income	257,858	411,389	108,478	159,937	46,781	984,443
Operating income	1,133,505	1,417,888	297,125	346,134	436,558	3,631,210
Other operating expenses	(199,974)	(582,798)	(95,494)	(71,860)	(112,239)	(1,062,365)
Depreciation	(14,230)	(32,724)	(3,041)	(5,714)	(17,161)	(72,870)
Operating profit	919,301	802,366	198,590	268,560	307,158	2,495,975
Impairment charge on financial assets, net	(325,940)	(422,135)	(19,454)	(3,010)	(23,146)	(793,685)
Income tax expense	-	-	-	-	(45,084)	(45,084)
Profit for the year	593,361	380,231	179,136	265,550	238,928	1,657,206
Segment capital expenditure	255	10,944	1,575	355	85,539	98,668

The table below presents segmental assets and liabilities as at 31 December 2017:

	Corporate banking	Consumer banking	Islamic banking	Treasury and Investment banking	International and unallocated	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Reportable segment assets	38,132,189	20,126,532	9,440,957	30,925,289	8,893,137	107,518,104
Reportable segment liabilities	32,629,433	12,456,875	6,627,201	28,734,262	7,603,834	88,051,605

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

33 Operating segments *(continued)*

The Bank operates in two principal geographic areas i.e. Domestic and International. The United Arab Emirates is designated as Domestic area which represents the operations of the Bank that originates from the U.A.E. branches and U.A.E. subsidiaries; and International area represents the operations of the Bank that originates from its branches in Qatar Financial Centre, Kuwait and China and its subsidiary in Egypt. The Bank's operations and information about its segment assets and liabilities by geographical area are as follows:

	2018			2017		
	Domestic AED'000	International AED'000	Total AED'000	Domestic AED'000	International AED'000	Total AED'000
Net interest income and income from Islamic financing	2,585,713	212,541	2,798,254	2,449,488	197,279	2,646,767
Other operating income	450,695	63,103	513,798	921,116	63,327	984,443
Operating income	3,036,408	275,644	3,312,052	3,370,604	260,606	3,631,210
Other operating expenses	(1,049,313)	(119,073)	(1,168,386)	(944,794)	(117,571)	(1,062,365)
Depreciation	(55,352)	(18,295)	(73,647)	(59,776)	(13,094)	(72,870)
Operating profit	1,931,743	138,276	2,070,019	2,366,034	129,941	2,495,975
Impairment charge on financial assets, net	(661,161)	(165,322)	(826,483)	(770,539)	(23,146)	(793,685)
Income tax expense	-	(57,957)	(57,957)	-	(45,084)	(45,084)
Profit for the year	1,270,582	(85,003)	1,185,579	1,595,495	61,711	1,657,206

The Banks's assets and liabilities by geographical area are as follows:

	2018			2017		
	Domestic AED'000	International AED'000	Total AED'000	Domestic AED'000	International AED'000	Total AED'000
Assets	98,865,960	8,123,249	106,989,209	100,560,855	6,957,249	107,518,104
Liabilities	80,590,600	7,442,327	88,032,927	81,827,541	6,224,064	88,051,605

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

33 Operating segments *(continued)*

The following is the analysis of the total operating income of each segment between income from external parties and inter segment.

	External		Inter-segment	
	2018 AED'000	2017 AED'000	**2018 AED'000**	2017 AED'000
Corporate banking	**1,367,682**	1,299,206	**(201,251)**	(165,701)
Consumer banking	**1,453,081**	1,584,260	**(299,130)**	(166,372)
Islamic banking	**50,045**	301,578	**(13,978)**	(4,453)
Treasury and Investment banking	**168,708**	157,584	**322,561**	188,550
International and unallocated	**272,536**	288,582	**191,798**	147,976
Total	**3,312,052**	3,631,210	**-**	-

34 Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to equity holders of the Bank by the weighted average number of shares outstanding during the year as set out below:

	2018 AED'000	2017 AED'000
Profit for the year attributable to equity holders of the Bank	**1,190,672**	1,644,771
Less: Interest on Tier I capital notes	**(86,672)**	(78,022)
Profit for the year attributable to equity holders of the Bank after interest on Tier I capital notes	**1,104,000**	1,566,749
Shares as at 1 January (Thousand)	**2,751,426**	2,751,426
Effect of bonus shares issued (Thousand)	**-**	-
Weighted average number of shares outstanding during the year (Thousand)	**2,751,426**	2,751,426
Basic and diluted earnings per share (AED)	**0.40**	0.57

35 Capital management

Capital measurement and allocation

Central Bank of the UAE is the supervisor of the Bank and, in this capacity, receives information on capital adequacy and sets minimum capital requirements. Overseas branches and overseas banking subsidiary are directly regulated by their respective regulators, which sets and monitor their capital adequacy requirements.

As per Notice No. 60/2017 dated 2 March 2017 issued by the Central Bank of the UAE, banks operating in the UAE are required to calculate their capital adequacy ratio as per the Basel III guidelines as implemented by the Central Bank of the UAE. Banks are required to maintain minimum capital requirements at three levels, namely Common Equity Tier 1, Tier 1 and Total Capital.

The Group's regulatory capital is analysed into two tiers, in line with the Central Bank regulation:

- Tier 1 capital, split into Common equity tier 1 (CET 1) which includes issued and paid-up share capital, retained earnings, statutory and legal reserves, accumulated other comprehensive income and Additional tier 1 (AT 1) comprising of instrument issued by banks which are eligible for inclusion in AT 1 and are not included in CET 1.
- Tier 2 capital includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of Credit Risk Weighted Assets).
- Regulatory adjustment is applied in CET 1, AT 1 and Tier 2 capital consisting mainly of goodwill and other intangibles, deferred tax assets, cash flow hedge reserve. Additionally, threshold deduction is applied in case of exceeding the threshold limit.

As per the Central bank regulation for Basel III, the capital requirement as at 31st December 2018 is 12.375% inclusive of capital conservation buffer. This will increase to maximum of 13% inclusive of capital conservation buffer by year 2019.

Capital management

The Group's capital resources policy is to maintain its capital base through the diversification of its sources of capital and the efficient allocation of capital. It seeks to maintain at all times a prudent relationship between its total capital, as measured according to the criteria used by Central Bank of the UAE and varied risk of its business.

The Bank and its overseas branches and overseas banking subsidiary have complied with all externally imposed capital requirements throughout all period presented.

There have been no material changes in Group's management of capital during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

35 Capital management *(continued)*

The table below shows the regulatory capital and capital charge calculated in accordance with the guidelines of the Central Bank of the UAE under Basel III.

	2018 AED'000	2017 AED'000
Capital Base:		
Tier 1 Capital		
Common Equity Tier 1 (CET 1)	16,292,470	16,740,054
Additional Tier 1 capital (AT 1)	2,000,000	1,790,213
Total (a)	18,292,470	18,530,267
Eligible Tier 2 Capital (b)	1,202,370	1,169,349
Total capital base (a) + (b)	19,494,840	19,699,616
Risk-weighted assets:		
Credit Risk	96,189,570	94,330,905
Market Risk	905,361	652,767
Operational Risk	6,224,010	6,444,737
Total risk-weighted assets (c)	103,318,941	101,428,409

Capital ratio	Minimum Capital Requirement 2018	2018	2017
Total capital ratio for consolidated Group	12.375%	18.9%	19.4%
Tier 1 ratio only for consolidated Group	10.375%	17.7%	18.3%
CET1 ratio only for consolidated Group	8.875%	15.8%	16.5%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

36 Impairment allowance

The movements in impairment allowance during the year are as follows:

	2018				2017		
	Stage 1 impairment allowance AED'000	Stage 2 impairment allowance AED'000	Stage 3 impairment allowance AED'000	Total impairment allowance AED'000	Collective impairment allowance AED'000	Specific impairment allowance AED'000	Total impairment allowance AED'000
At 1 January (as per IAS 39)	1,448,857	-	1,672,719	3,121,576	1,524,958	1,354,461	2,879,419
Effect of change in accounting policy for IFRS 9	(641,930)	1,062,211	476,123	896,404	-	-	-
At 1 January (restated as per IFRS 9)	806,927	1,062,211	2,148,842	4,017,980	1,524,958	1,354,461	2,879,419
Charge for the year (net of write backs)	(221,795)	243,364	932,315	953,884	(73,034)	1,059,189	986,155
Transfers	138,266	(336,493)	198,227	-	(4,115)	4,115	-
Amounts written off	-	-	(1,108,985)	(1,108,985)	-	(747,222)	(747,222)
Foreign currency translation	(299)	(64)	(8,161)	(8,524)	1,048	2,176	3,224
	723,099	969,018	2,162,238	3,854,355	1,448,857	1,672,719	3,121,576

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

36 Impairment allowance *(continued)*

The table below shows allocation of impairment allowance:

	2018				2017		
	Stage 1 impairment allowance AED'000	Stage 2 impairment allowance AED'000	Stage 3 impairment allowance AED'000	Total impairment allowance AED'000	Collective impairment allowance AED'000	Specific impairment allowance AED'000	Total impairment allowance AED'000
Due from banks	257	-	-	257	-	104	104
Loans and advances measured at amortised cost	688,132	951,666	2,157,388	3,797,186	1,448,857	1,661,797	3,110,654
Investment securities at amortised cost	12,184	-	-	12,184	-		-
Other assets	3,870	396	3,056	7,322	-	-	-
Letter of credit, financial guarantees and undrawn loan commitments	18,656	16,956	1,794	37,406	-	10,818	10,818
	723,099	969,018	2,162,238	3,854,355	1,448,857	1,672,719	3,121,576

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 *(continued)*

36 Impairment allowance *(continued)*

Impairment reserve under the Central Bank of UAE (CBUAE) guidance

The CBUAE issued its IFRS 9 guidance on 30 April 2018 via notice no. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance").

Pursuant to clause 6.4 of the guidance, the reconciliation between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2018 AED'000
Impairment reserve: General	
General provisions under Circular 28/2010 of CBUAE	1,442,844
Less: Stage 1 and Stage 2 provisions under IFRS 9	1,639,798
General provision transferred to the impairment reserve*	-
Impairment reserve: Specific	
Specific provisions under Circular 28/2010 of CBUAE	2,043,783
Less: Stage 3 provisions under IFRS 9	(2,157,388)
Specific provision transferred to the impairment reserve*	-
Total provision transferred to the impairment reserve	-

*In the case where provisions under IFRS 9 exceed provisions under CBUAE, no amount shall be transferred to the impairment reserve.

37 Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in these consolidated financial statements, the effect of which are considered immaterial.

38 Subsequent events

On January 29, 2019, the Boards of Directors of Union National Bank ("UNB") and ADCB approved and recommended to the shareholders a merger of the two banks.

The proposed merger will be executed through a statutory merger, with UNB shareholders receiving 0.5966 ADCB shares for each UNB share they hold. As a result of the merger, ADCB shareholders will own approximately 76% of the combined bank while UNB shareholders will own approximately 24%. On the effective date of the merger, UNB shares will be delisted from the Abu Dhabi Securities Exchange. The combined bank will retain ADCB's legal registrations.

Further, the Boards of Directors of UNB and ADCB have also approved and recommended the acquisition of 100% of the issued share capital of Al Hilal Bank ("AHB") by the combined bank by issuing a mandatory convertible note to AHB's sole shareholder, Abu Dhabi Investment Council.

However, the merger and acquisition are subject to approval from the shareholders of UNB, ADCB and AHB at their respective general assembly meetings and from relevant regulatory authorities.

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018

INTRODUCTION

The UNB Group has been on a continuous journey towards excellence to create a strong culture of continual performance improvement and to provide consistently superior services to our customers. With strong enterprise-wide emphasis on prudent risk management practices and compliance, the Bank has a distinct advantage of having implemented and adopted systems aligned to ISO 31000 risk management standards and Basel guidelines through structured and modular approach that seamlessly integrate the Group's business objectives and risk profile.

The purpose of these disclosures is to provide the market participants and other key stakeholders with an overview of Group's risk governance framework and key risk metrics from the regulatory perspective in accordance with the Central Bank of the UAE disclosure requirements. The information provided hereunder has been subjected to adequate level of internal control review in accordance with the Group's disclosure standards and consistent with how the senior management and the board of directors assess and manage the risks of the Group. The disclosures which are considered relevant by the management from the materiality aspect and not included in other parts of the annual report are included in this section and complement the financial related disclosures. The Bank and its affiliates and subsidiaries are collectively referred as UNB Group (alternatively 'Group') in this section.

The Group has implemented a comprehensive policy framework through well-defined policies and procedures for compliance, risk appetite, stress testing, internal capital adequacy assessment, market and liquidity risk, credit risk, operational risk, whistle-blower information, fraud control, information security, business continuity planning, disaster recovery, anti-money laundering and combating financing of terrorism. The Bank's code of ethics that underpins the attributes of the shared core values and integrity forms an integral part of enterprise risk management and employee work culture.

The Group has adopted the capital adequacy standards promulgated by the Central Bank of the UAE (CBUAE) under the Basel framework. The Basel framework is organized under three pillars viz. Pillar 1 – minimum capital requirements; Pillar 2 – supervisory review process and Pillar 3 – market discipline.

The Group computes the Pillar 1 capital adequacy ratio by determining the risk weighted assets for credit, market and operational risks as per the CBUAE guidelines under standardized approach. As at 31 December 2018, the Group's capital adequacy ratio was 18.9% significantly higher than the CBUAE requirement of 12.375% including the capital conservation buffer.

Under Pillar 2, the Group undertakes a comprehensive review of potential and material risks through the Internal Capital Adequacy Assessment Process (ICAAP). The Group's ICAAP includes assessing the overall risk profile, determining material risks, performing stress testing to shock scenarios that are proportionate to the risk complexities of the Group and allocating capital under Basel Pillar 2 to ensure financial solidity and long term sustainability.

Core principle of capital planning at the Bank is to allow maintenance of ready access to funding, meet Bank's obligations to creditors and other counterparties and continue the profitable credit intermediation business model, in the 'business as usual' as well as in 'stress' scenario. Enterprise risk and capital planning process requires comprehensive assessment of various risks to which Bank is exposed to and effective risk management processes to manage and mitigate those risks. Prudent and forward looking stress testing process forms an integral part of the capital planning process.

Stress testing is an important tool for assessing adverse unexpected outcomes related to capricious blend of risks, and provides an indication of how much capital might be needed to absorb losses should large shocks occur. The assumption of stress scenarios and the impact on capital and earnings are assessed by the Risk Management Committee, the CEO and the Board Risk Committee. The components of ICAAP 2018 report results and assumptions (encompassing analysis of different risks not covered under Pillar 1) is reviewed and approved by the Board of Directors.

RISK MANAGEMENT OVERVIEW

The Group's risk governance structure adopts enterprise-wide integrated 'governance-risk-compliance (GRC)' framework and ensures responsible management and control of the Group with a focus on consistent value creation. The Group's key risk management principle is to protect the financial strength and safeguard the reputation by aligning its risk strategy to achieve sustainable business goals. In accordance with this principle, the Group has established relevant risk management policies, procedures and guidelines; adopts review-tests on an ongoing basis to ensure that all material risks are monitored, assessed, quantified and compared with the risk appetite norms and undertakes balanced risk treatment measures that are proportionate and appropriate to achieve the Group's Vision and medium term business goals.

The Board and senior management remain committed to increasing shareholders' value by developing and growing the business within the established risk appetite guidelines and are conscious of achieving this objective while upholding the priorities and

RISK MANAGEMENT OVERVIEW *(continued)*

interests of multiple stakeholders. The Group's risk management approach seeks to limit adverse variations in earnings and capital by managing risk exposures within the levels of risk tolerance by limiting potential losses that could arise from stress events and ensuring continued adequacy of all financial resources with robust contingency plans.

The Group's GRC framework integrates the local regulatory guidelines, sound principles and practices of Basel Committee guidelines, and other industry standards in managing the business risks by ensuring that:

- Risks are identified, monitored, understood and effectively managed
- Risks are within the tolerance levels established through reporting and assurance process involving business-line management, compliance and enterprise risk function, management committees, board committees and the board of directors
- Risk taking decisions are consistent with the business objectives, explicit and clear
- Expected returns are commensurate with and adequately compensate for, the risks undertaken
- Capital allocation is consistent with risk exposure
- Risk taking, risk assessment and risk control functions are separate from each other with defined segregation of duties and independent reporting lines

The aim of the Group's risk management policy is to optimize the 'risk - return trade – off' by either maximizing the return for a given level of risk or minimizing the risk required for a desired level of return.

The concern for and tone of, risk management in the Group is set at the top, at the Board level and becomes the basis of the way the Group conducts its business. The Group's governance practices and high level related aspects are delineated in the Corporate Standards Manual and the Articles of Association. The Group's risk management organization remains effective to manage various risks through prudent risk taking and proactive risk response decisions by various management committees that are guided by relevant policies approved by the Board.

The Group's risk management culture promotes, continuous monitoring of the risk environment and integrated evaluation of risks and their interaction, to assess the enterprise wide risk profile.

The Group examines its risk profile to ensure that its capital level is:

- above the minimum regulatory capital threshold, taking into consideration the operating environment and the strategy of the Group
- sufficient to withstand certain internally defined stress scenarios and economic down-turn forecasts
- sufficient to support the Group's strategic objectives and operational goals

The Group recognizes the business opportunities of digital transformation and innovation in the financial services while understanding and adopting appropriate system security tools and processes to manage the associated information security risks therein. The Group is cognizant of the information security risks in the business environment and considers it as one of the top priority risks for continuing management along with credit and liquidity risks.

RISK MANAGEMENT STRATEGY

The underpinning of the Group's risk management strategy is to protect the financial strength and safeguard the reputation while prudent risk-taking remains an integral part of the Group's business.
The Group's risk management strategy is therefore founded on the following principles, which applies across all businesses and risk categories.

- **Protection of financial strength**: Careful monitoring and controlling of risks in order to limit the impact of potentially adverse events on capital and income streams and ensuring that risk appetite is consistent with financial resources.
- **Safeguarding of reputation:** The value of Group's franchise depends on reputation. The management and employees are committed to maintaining and upholding the good reputation of the Group with a very low risk appetite defined for reputational risks.
- **Risk transparency:** The Group's risk culture ensures that risks are well understood by the management and staff, balanced against business goals and communicated to all the stakeholders.

RISK MANAGEMENT STRATEGY *(continued)*

- **Management accountability:** Business-line management own the comprehensive risks that are assumed in the execution of their operations, assume responsibility for the pro-active management of risk exposures within the risk appetite guidelines set by the Board, and ensure that return generated are commensurate with the risks undertaken.

RISK APPETITE

Risk appetite is an expression of the maximum level of risk that the Group is prepared to accept in the normal course of business to deliver its strategic and financial objectives. The Group makes detailed analysis of its portfolio and takes inputs from relevant stakeholders to arrive at a risk appetite level that has been evolved over the past few years.

The Board has established well-articulated risk appetite guidelines through various risk policies, including a risk appetite policy that provides guidance on all material risks to maintain the financial solidity of the Group on a sustainable basis. The Group monitors its overall risk positioning vis-à-vis the risk appetite through comprehensively developed risk metrics. The Group's overall risk profile in 2018 remained consistently within the risk appetite guidelines under the various parameters set out.

RISK EXPOSURES AND ASSESSMENT

BUSINESS RISK

Business risk is the current and prospective risks to earnings and capital arising from the adverse changes in the competitive environment that may impact the Group's operational economics of doing business. Business risk consists amongst others reputational, strategic, regulatory, operational, credit, market, interest rate, liquidity, cyber security and legal risks. The Group reckons business risk by assessing the volatility of gross income and expenses and maintains it in line with the risk appetite norms.

REPUTATIONAL RISK

Reputational risk is the current and prospective risk to earnings and capital arising from the adverse perception of brand/image of the Group by customers, counter-parties, shareholders, regulators and rating agencies.

The Board and the management of the Group consider that this risk can have a contagion effect on other risks, and hence is highly conscious of managing the same proactively in an effective and transparent manner. The Group has very low risk appetite towards reputational risk and adopts appropriate measures of transparency and disclosure to maintain strong brand image and franchise value.

Various awards and recognition conferred on the Group reinforces the commitment of the Group to Quality and Service Excellence as also to uphold its reputation. Details of some of the noteworthy awards and recognition won by the Bank in 2018 are included in the Chief Executive Officer's Review Report which is part of the Annual Report.

STRATEGIC RISK

Strategic risk is the current and prospective risks to earnings and capital arising from the changes in the legal and regulatory environment, adverse business decisions, improper or non-implementation of decisions and lack of response to changes in the business environment.

The Group has a dedicated function to monitor compliance with the strategies laid out for achieving the stated objectives. Progress status is assessed for initiating any corrective action that may be necessary for achieving the objectives. Through regular reporting, evaluation and action, Group's senior management ensures that the strategic risks are proactively identified and prudently managed and kept to the minimum level as possible.

COMPLIANCE RISK/REGULATORY RISK

Regulatory risk is the current and prospective risk to earnings and capital arising from the violations or non-compliance to laws, regulations, agreements, ethical standards and preferred business practices. This risk has adverse impact on the Group's reputation, franchise, business opportunities, growth as well as expansion potential and competitiveness. The Group is subject to extensive supervisory and regulatory regimes in all businesses and jurisdictions in which it operates.

COMPLIANCE RISK/REGULATORY RISK *(continued)*

While the Board and the senior management remain responsible for overseeing the management of the Group's regulatory risk, a dedicated and independent Compliance function as a part of independent compliance and enterprise risk framework, actively engages with the management and reporting officers within business units and subsidiaries to ensure that adequate internal controls are developed and implemented to comply with all regulatory guidelines. The Board and the senior management consider combating financial crime risks and adopting appropriate compliance requirements are critical to protect the Group's reputation.

The Group's compliance framework encompasses robust control towards anti-money laundering and combating financing of terrorism, adopting and monitoring international sanctions compliance program, and adherence to extra-territorial compliance obligations arising from Group's businesses across various jurisdictions. The Group has established policies, procedures and uses appropriate information technology systems to monitor and manage such risks. The Group has established robust compliance program for USA-Foreign Accounts Tax Compliance Act (FATCA) compliance and Common Reporting Standards (CRS) compliance with well delineated operating procedures and processes. The Bank implemented the UAE -Value Added Tax (UAE-VAT) compliance obligation effective from January 2018. During the year 2018, the Bank has taken appropriate measures and fully implemented the recommendations put-forth by the external consultant report on the AML/Sanctions compliance framework assessment carried out in the preceding year.

Dedicated function exists for collating prudential returns and other regulatory information, to ensure timely submission. The Group ensures that management and staff are kept informed of regulatory developments and trained as necessary on all relevant aspects.

The Group is subjected to various examinations / reviews from the external stakeholders' viz. the CBUAE, Abu Dhabi Accountability Authority and other regulatory authorities of the overseas branches and subsidiaries. The observations issued by the regulatory and statutory bodies and management actions towards adopting the recommendation cited therein are assessed and monitored by the Board.

The Bank did not encounter any material regulatory risk issue during the fiscal 2018 and overall AML/Sanctions risk profile continues to remain Low risk.

OPERATIONAL RISK

The Group has established operational risk management policy and appropriate procedures for managing operational risks. The Group's operational risk framework and processes have been embedded and integrated across the enterprise with well-defined and matured processes of Risk and Control Self-Assessment (RCSA) for various business units that are proportionate and appropriate to the nature of business units' inherent and granular risk complexities. The Group has built internal operational loss data base through clearly defined operational risk event reporting process that is robust to capture any operational risk and loss events and to take up appropriate risk treatment measures in a timely manner. The Bank has been using an operational risk management system for enterprise wide operational risk reporting and monitoring processes. Bank has a very low risk appetite for operational risks. Fraud risks are assessed as a part of Group's operational risk framework which includes both internal and external frauds. Further near-miss operational risk events are captured and prudent remediation measures taken to avoid recurrence through an effective incident reporting and root-cause analysis framework. The actual operational losses incurred and the potential operational losses recognized for the fiscal 2018 are not material.

BUSINESS CONTINUITY MANAGEMENT

The Group adopts a holistic business continuity management system (BCMS) that identifies potential threats, the impacts of these threats to business operations and provides a framework for effective response.

The Group's BCMS framework is built around the policy of continually striving to reduce the likelihood, shorten the impact of business interruptions if any and aim at ensuring economic existence of the Group even under extreme calamity situations. The framework identifies activities that support the delivery of the Group's key products and services by ascertaining on a periodic basis their maximum tolerable period of disruption, dependencies, recovery time objective and recovery point objective through robust business impact analysis process.

The Group's BCMS system is compliant to international best practices and is certified to ISO 22301 standards. The Group's BCMS is tested annually under various scenarios and the latest full scale test did not result in any material issues.

CREDIT RISK

Group's credit culture is dedicated to achieving and maintaining risk assets of high quality. This requires commitment to soundness, prudence, professionalism and discipline in applying a consistently high standard of credit management. A strong universal credit culture is practiced to ensure the successful control over and management of risk, seeking to minimize credit losses while enhancing risk-adjusted returns, thus contributing to the overall success of the Group.

Please refer to Note 3.1 of the consolidated financial statements for further details on the credit risk measurement and treatment including definition of past dues and impaired and on approaches and methodologies followed for impairment allowances required in accordance with IFRS 9.

Hedging and mitigation of credit risk for risk management purposes is covered in the Group's credit risk policies. The Group mitigates credit risk through the adoption of both proactive preventative measures (e.g. controls and limits) and the development and implementation of strategies to assess and reduce the impact of particular risks, should these materialize (e.g. taking collateral and hedging).

The Bank has established strong credit management framework with well-defined criteria for internal credit rating grades for corporate customers, determining risk rating at the borrower level, evaluating - probability of default (PD) and loss given default (LGD) and evaluating risk scores at borrower level for retail customers through statistical risk models.

The Group assigns the credit risk weight to counterparties exposure based on the ratings assigned to the counterparty by the ECAIs. Furthermore, CBUAE has also provided the mapping of the ratings and risk weight for each rating mapping. As per the guidelines from the CBUAE, banks are required to select ECAIs and their ratings consistently for each type of claims for both risk weighting and risk assessment purposes. The banks are not allowed to cherry pick assessment provided by different ECAIs and must disclose the process. The Group uses the rating provided by the leading ECAIs (Moody's/Fitch/Capital Intelligence) to risk weight the debt of counterparties from Banking, Corporate (including GRE) and Government sector. In accordance with the CBUAE guidelines, if the counterparty is rated by only one of the recognized rating agencies then rating of that agency is considered. However, if the counterparty is rated by two ECAIs, which maps into different risk weights, the higher risk weight is applied. Furthermore, if the counterparty is rated by three ECAIs and the risk weight differs for all the three ratings, then the Group uses the middle risk weight.

CONCENTRATION RISK

The Group adopts a prudent risk centric approach for managing concentration risk arising from credit assets, investment exposures and funding liabilities. The credit concentration is also assessed and managed from obligor, sectoral and risk grade perspective to ensure and maintain sufficient portfolio granularity across different risk dimensions.

The Group adopts the regulatory large exposure guidelines towards managing obligor concentration risk while sector concentration risk is managed in line with industry benchmarks and business strategy. The Bank ensures sufficient diversification in its investment portfolio through internal risk limits.

The Group manages funding concentration with care by adopting diversification strategy as part of overall liability management strategy while prudently evaluating the retention behavior and strategic nature of depositors.

The Group estimates potential impact of concentration risk on its solvency position under the ICAAP in line with international best practices by allocating - capital as an additional mitigation tool when appropriate.

With a view to manage concentration risk, the Group has established internal guidance limits over and above regulatory limits in line with leading risk management practices. These guidance limits are being used by the management for reviewing asset liability position and deciding changes in business strategy if and when required.

SOVEREIGN RISK

The Group manages its sovereign risk as a part of credit risk. Sovereign risk limits are established for each country based on various credit risk parameters including but not limited to ratings assigned by the ECAIs.

RESIDUAL RISK

Residual risk represents primarily those risks, where the risk mitigation techniques proved less effective than expected in the past. The Group uses cash taken from customer either in the form of collateral or margin as credit risk mitigant (CRM) while computing

RESIDUAL RISK *(continued)*

minimum regulatory capital requirements. Cash used as CRM is held by the Group and there is virtually no risk in enforcing the same for recovering overdue amount from the customer.

In addition to cash, financial guarantees given by financial institutions or Sovereigns on behalf of customers are utilized to offset part of the risk and thereby reducing the capital requirement. If a better rated financial guarantee is provided by the counterparty which is rated by approved ECAIs, the ratings of the customer is replaced by the ratings of the Guarantors. The Group considers the guarantees as eligible credit risk mitigant, only if the guarantees are direct, explicit, irrevocable and unconditional. Where the guarantor is not rated by an approved ECAI and is not a Sovereign, the Group accepts such guarantee for its internal assessment only. Further, the Group has in place adequate controls around the process of managing all forms of collateral and the same are regularly reviewed. By adopting adequate controls and ensuring independence of the units enforcing the controls, the Group is able to manage its risk of timely enforcement of all forms of credit risk mitigant used in the capital adequacy ratio computation. The Group during FY 2018 did not use netting as a risk mitigant. Further details on collaterals including main types of Guarantors (and allied creditworthiness) and concentration are provided in Note 3.1 of the consolidated financial statements.

Counterparties which are not rated by any of the recognized rating agencies are treated as unrated and risk weight assigned accordingly. The internal credit ratings determined by the Group for the counterparties are not used for calculation of risk weighted assets, as the Group follows standardized approach in accordance with the regulatory guidelines.

MARKET RISK

The Group generates market risk in the normal course of its banking business and this risk is substantially mitigated with external counterparties. The Group engages to a limited extent in proprietary risk-taking, but does not seek to generate a material proportion of its earnings from this activity and has a low tolerance for earnings volatility arising from trading risk.

The Group has established a detailed market risk management policy approved by the Board. The Group's overall market risk appetite is determined as a percentage of market risk weighted assets to total risk weighed assets as per risk weights determined under the Basel standardized approach. The Group monitors and manages market risk through various portfolio level risk measures viz. value at risk, duration, stop loss limits, position limits and concentration limits. Treasury remains the first line of defense for managing market risk within various limits. An independent middle office tracks various positions and reports on limit breaches if and when they occur on a real time basis. Any breach is rectified or a ratification obtained -. The Bank's enterprise risk function independent of treasury and middle office tracks overall market risk profile and advises corrective action as required. Further details on market risk and investment exposures are provided under Note 3.3 and 15 of the consolidated financial statements respectively. During 2018, the Group's market risk profile consistently remained within the risk appetite levels.

INTEREST RATE RISK

Interest rate risk in banking book (IRRBB) refers to the current or prospective risk to the Group's capital and earnings arising from adverse movements in interest rates that affect the Group's banking book positions.

The Group manages interest rate risk in the banking book through monitoring the interest rate sensitive gaps of assets and liabilities. The ALCO frequently monitors changes in the Bank's interest rate position and advises both short term tactical and long term strategic changes in line with prevailing economic environment and future expectations.

The impact on the cash flows and economic value is calculated using net interest income (NII) & economic value of equity (EVE) approaches using a parallel yield curve rate shock of minimum 200 bps under pillar 2 IRRBB assessment. The Group uses 300bps shock on interest rate gaps for capital estimation under a stressed economic environment.

The Group has prudent risk management policies with internal risk guidance limits to ensure the risk is maintained within risk appetite. Please refer to note number 3.3.1 of the consolidated financial statements for details on interest rate risk.

LIQUIDITY RISK

Funding and liquidity decisions are made on the basis of an in-depth understanding of the Group's current situation (business environment, strategy, balance sheet and liquidity situation), of the businesses' future liquidity needs (liquidity projections), and of the availability and situation of funding sources. The aim is to ensure that the Group maintains optimal levels of liquidity to cover its liquidity requirements in the near and long term, using stable funding sources, so as to optimize the income statement impact of the cost.

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018 *(continued)*

LIQUIDITY RISK *(continued)*

Please refer to note number 3.2 of the consolidated financial statements for further details on liquidity risk. In addition to the details provided therein, the Group uses cash-flow stress testing as part of its control process to assess liquidity risk. The Group conducts stress testing on the balance sheet gap by incorporating appropriate adjustments based on certain assumptions like impact of haircuts on liquid assets, non-performing loans, deposits retention ratio and off-balance sheet commitments, etc. The Group monitors and manages the liquidity in the UAE through maintaining comfortable level of advances to stable resources ratio and eligible liquid assets ratio as stipulated by the CBUAE and adopts residual maturity and behavioral approaches while measuring liquidity risk. The Group has also established a detailed liquidity contingency plan.

PROPERTY AND INVESTMENT RISK

Property and investment risk is the current and prospective risks arising from the properties owned by the Group and long-term investments in subsidiaries, associates and other investments. The Group's property or investment risks are managed through periodic valuation and appropriate accounting. The risk attached to volatility in all other investments is assessed as a part of Market Risk.

SECURITIZATION RISK

The Group does not have any securitization transaction in the books.

INFORMATION SECURITY & CYBER RISK

The Group has established appropriate cyber security & risk management program to combat growing cyber threats and manage the cyber risks impacting the Group. The Group Information Security Policy & Standards are in alignment with industry standards ISO ISMS 27001:2013 and ensures compliance to latest Payment Card Industry Data Security Standards.

The Group has put in place a cyber security strategy including cyber security Incident management & response program to address any potential cyber security risks and has established a continuous security monitoring program to identify & respond to internal & external information security threats.

Regular internal & external security assessments program including independent third party penetration testing/security assessments are being undertaken to manage and mitigate risks on an ongoing basis. The Bank has established sophisticated cyber security management tools and system to ensure cyber risk resilience.

During the 2018, the Group did not encounter any critical information security risk incident.

BASEL REVIEW AND STRESS TESTING

The Group has established a well-defined stress testing policy approved by the Board that covers the methodology and calibration of shocks. The Group performs stress testing annually by considering the idiosyncratic and macroeconomic scenarios. The results of the stress testing are reviewed at the senior management level and considered for strategic business and capital management decisions. The annual ICAAP for fiscal 2018 reinforces the Group's strong capital position and financial strength to support additional risk taking capacity in line with business projection and associated risk estimate over a forward looking three year time horizon. Further during 2018, the Group carried out comprehensive stress testing on the static balance sheet, in accordance with the regulatory guidance, over the three year time horizon between 2018 and 2020; the results derived through assessment indicate the Group's loss absorption capacity and solvency strength remains intact with the stress scenario capital adequacy ratio being well above regulatory stress scenario hurdle rate.

OTHER DISCLOSURES

In 2018, the Group has implemented the new regulatory compliance program in respect of IFRS 9 and UAE VAT effective beginning of 2018. IFRS 9 related disclosures are included under notes to the consolidated financial statements.

The Bank has been adopting the CBUAE interim Basel III liquidity ratios viz. Eligible Liquid Assets Ratio and Advances to Stable Resources Ratio.

Further the bank is also computing and monitoring Basel III viz. Liquidity Coverage ratio and NetStable Funding ratio. However, the Bank is yet to approach the CBUAE to formally adopt and disclose these ratios.

All new regulations promulgated by the CBUAE have been reviewed by the Board and risk policies continue to be updated and aligned with extant regulations.

Quantitative Disclosures

The quantitative disclosures are provided in the succeeding pages.

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018 *(continued)*

INFORMATION ON SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

		Ownership (%)			
Subsidiaries	Country of incorporation	2018	2017	Description	Accounting treatment
Al Wifaq Finance Company PrJSC	U.A.E.	89.2%	89.2%	Shari'a compliant Islamic finance products and services	Full consolidation
Union Brokerage LLC	U.A.E.	99.6%	99.6%	Equity brokerage services	Full consolidation
Union National Bank, Egypt	Egypt	96.6%	96.6%	Commercial banking services	Full consolidation
Injaz Marketing Management LLC	U.A.E.	98.6%	98.6	Marketing management services	Full consolidation
Union National Bank (BVI) Ltd.	British Virgin Islands	100%	100%	Treasury dealing activities	Full consolidation
Al Wifaq Properties LLC	U.A.E.	87.4%	87.4%	Property management services	Neither consolidated nor deducted (investment is risk weighted)
Significant investments					
Arab Orient Takaful Insurance Company	Egypt	19.3%	19.3%	Insurance services	Neither consolidated nor deducted (investment is risk weighted)
Orient UNB Takaful PJSC	U.A.E.	47.5%	47.5%	Insurance services	Neither consolidated nor deducted (investment is risk weighted)

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018 *(continued)*

CONSOLIDATED CAPITAL STRUCTURE

		31 December 2018 AED'000	31 December 2017 AED'000
Capital Base			
1	**Common Equity Tier 1 (CET1) Capital**		
1.1	Share Capital	**2,751,426**	2,751,426
1.2	Share premium account	**-**	**-**
1.3	Eligible Reserves	**1,992,374**	2,050,832
1.4	Retained Earnings / (-) Loss	**11,480,342**	11,845,698
1.5	Eligible amount of minority interest	**149,321**	170,392
1.6	Capital shortfall if any	**-**	-
	CET1 capital before the regulatory adjustments and threshold deduction	**16,373,463**	16,818,348
1.7	Less: Regulatory deductions	**80,993**	78,294
1.8	Less: Threshold deductions	**-**	-
	Total CET1 capital after the regulatory adjustments and threshold deduction	**16,292,470**	16,740,054
	Total CET1 capital after transitional arrangement for deductions (CET1) (a)	**16,292,470**	16,740,054
2	**Additional Tier 1 (AT1) Capital**		
2.1	Eligible AT1 capital (After grandfathering)	**2,000,000**	1,800,000
2.2	Other AT1 Capital e.g. (Share premium, minority interest)	**-**	-
	Total AT1 capital	**2,000,000**	1,800,000
	Total AT1 capital after transitional arrangements (AT1) (b)	**2,000,000**	1,790,213
3	**Tier 2 (T2) Capital**		
3.1	Tier 2 Instruments e.g. subordinated loan (After grandfathering and/or amortization)	**-**	-
3.2	Other Tier 2 capital (including General Provisions, etc.)	**1,202,370**	1,179,136
	Total T2 Capital	**1,202,370**	1,179,136
	Total T2 capital after transitional arrangements (T2) (c)	**1,202,370**	1,169,349
	Capital Base { (a) + (b) + (c) }	**19,494,840**	19,699,616

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018 *(continued)*

CAPITAL ADEQUACY

	31 December 2018		31 December 2017	
Capital Requirements	RWA	Capital Charge	RWA	Capital Charge
	AED'000	AED'000	AED'000	AED'000
1 Credit Risk – Standardized Approach	96,189,570	10,099,905	94,330,905	9,904,745
2 Market Risk – Standardized Approach	905,361	95,063	652,767	68,541
3 Operation Risk				
a. Basic Indicator Approach	-	-	-	-
b. Standardized Approach/ASA	6,224,010	653,521	6,444,737	676,697
c. Advanced Measurement Approach	-	-	-	-
Minimum Capital Requirement	103,318,941	10,848,489	101,428,409	10,649,983
Capital Conservation Buffer @ 1.875% (2017: 1.25%)	-	1,937,230	-	1,267,855
Total Capital Requirements	103,318,941	12,785,719	101,428,409	11,917,838
Capital Ratio				
a. Total for Union National Bank Group		18.9%		19.4%
b. Tier 1 ratio for Union National Bank Group		17.7%		18.3%
c. CET1 ratio for Union National Bank Group		15.8%		16.5%

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018 *(continued)*

CREDIT EXPOSURE BY CURRENCY TYPE

					Credit Equivalent				
	Loans AED'000	Debt securities AED'000	Others AED'000	Total funded AED'000	Commitments AED'000	OTC Derivatives AED'000	Other off balance sheet exposure AED'000	Total non-funded AED'000	Total AED'000
31 December 2018:									
UAE Dirham	52,205,322	-	7,081,925	59,287,247	770,416	258,088	10,124,244	11,152,748	70,439,995
Foreign currency	21,765,681	19,152,840	7,280,293	48,198,814	1,120,003	605,284	6,251,687	7,976,974	56,175,788
	73,971,003	19,152,840	14,362,218	107,486,061	1,890,419	863,372	16,375,931	19,129,722	126,615,783
31 December 2017:									
UAE Dirham	51,362,521	-	9,633,025	60,995,546	418,399	216,443	9,900,786	10,535,628	71,531,174
Foreign currency	21,223,641	20,950,588	4,807,985	46,982,214	817,345	430,973	6,811,836	8,060,154	55,042,368
	72,586,162	20,950,588	14,441,010	107,977,760	1,235,744	647,416	16,712,622	18,595,782	126,573,542

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018 *(continued)*

CREDIT EXPOSURE BY GEOGRAPHY

					Credit Equivalent				
	Loans AED'000	Debt securities AED'000	Others AED'000	Total funded AED'000	Commitments AED'000	OTC Derivatives AED'000	Other off balance sheet exposure AED'000	Total non-funded AED'000	Total AED'000
31 December 2018:									
United Arab Emirates	66,915,370	12,370,628	10,686,363	89,972,361	1,625,378	674,989	14,298,739	16,599,106	106,571,467
GCC (excluding UAE)	1,676,056	1,378,244	249,784	3,304,084	24,309	-	364,414	388,723	3,692,807
OECD Countries	2,571	400,422	1,959,698	2,362,691	-	184,845	247,443	432,288	2,794,979
Others	5,377,006	5,003,546	1,466,373	11,846,925	240,732	3,538	1,465,335	1,709,605	13,556,530
	73,971,003	19,152,840	14,362,218	107,486,061	1,890,419	863,372	16,375,931	19,129,722	126,615,783
31 December 2017:									
United Arab Emirates	67,448,232	12,019,201	12,621,215	92,088,648	1,029,538	462,377	15,115,274	16,607,189	108,695,837
GCC (excluding UAE)	1,605,653	2,343,101	200,057	4,148,811	86,178	-	369,506	455,684	4,604,495
OECD Countries	2,853	1,470,107	196,860	1,669,820	-	180,251	224,780	405,031	2,074,851
Others	3,529,424	5,118,179	1,422,878	10,070,481	120,028	4,788	1,003,062	1,127,878	11,198,359
	72,586,162	20,950,588	14,441,010	107,977,760	1,235,744	647,416	16,712,622	18,595,782	126,573,542

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018 *(continued)*

CREDIT EXPOSURE BY INDUSTRY SEGMENT

					Credit Equivalent				
	Loans AED'000	Debt securities AED'000	Others AED'000	Total funded AED'000	Commitments AED'000	OTC Derivatives AED'000	Other off balance sheet exposure AED'000	Total non-funded AED'000	Total AED'000
31 December 2018:									
Financial institutions	9,710,364	6,765,796	5,051,075	21,527,235	141,278	767,078	2,379,891	3,288,247	24,815,482
Consumer	19,020,098	-	-	19,020,098	-	-	82,482	82,482	19,102,580
Sovereign	3,478,841	8,321,085	6,250,963	18,050,889	-	-	5,763	5,763	18,056,652
Real estate	13,451,807	735,786	1,888,001	16,075,594	150,203	-	63,082	213,285	16,288,879
Construction	3,539,262	-	-	3,539,262	300,116	1,644	9,586,507	9,888,267	13,427,529
Service	6,482,800	904,597	7,312	7,394,709	419,914	43,258	1,281,959	1,745,131	9,139,840
Trade	5,467,172	433,553	-	5,900,725	277,621	210	1,198,514	1,476,345	7,377,070
Energy	4,813,662	1,803,529	-	6,617,191	376,805	47,178	31,278	455,261	7,072,452
Manufacturing	3,585,395	188,494	737	3,774,626	122,841	4,004	892,899	1,019,744	4,794,370
Others	4,421,602	-	1,164,130	5,585,732	101,641	-	853,556	955,197	6,540,929
	73,971,003	19,152,840	14,362,218	107,486,061	1,890,419	863,372	16,375,931	19,129,722	126,615,783
31 December 2017:									
Financial institutions	9,240,890	7,800,281	2,879,312	19,920,483	104,567	557,169	1,908,056	2,569,792	22,490,275
Consumer	20,406,054	-	-	20,406,054	-	-	82,899	82,899	20,488,953
Sovereign	4,651,401	9,068,191	8,423,669	22,143,261	-	24,450	9,022	33,472	22,176,733
Real estate	10,891,766	979,492	2,054,575	13,925,833	3,466	-	39,970	43,436	13,969,269
Construction	3,902,347	-	34	3,902,381	300,638	7,653	10,265,476	10,573,767	14,476,148
Service	6,917,420	807,397	3,829	7,728,646	296,059	9,204	1,292,755	1,598,018	9,326,664
Trade	4,744,362	169,641	-	4,914,003	160,650	9,129	1,178,746	1,348,525	6,262,528
Energy	4,252,542	1,661,786	14	5,914,342	250,336	36,356	24,655	311,347	6,225,689
Manufacturing	3,382,826	463,800	4,728	3,851,354	-	3,455	1,027,761	1,031,216	4,882,570
Others	4,196,554	-	1,074,849	5,271,403	120,028	-	883,282	1,003,310	6,274,713
	72,586,162	20,950,588	14,441,010	107,977,760	1,235,744	647,416	16,712,622	18,595,782	126,573,542

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018 *(continued)*

CREDIT EXPOSURE BY RESIDUAL CONTRACTUAL MATURITY

					Credit Equivalent				
	Loans	Debt securities	Others	Total funded	Commitments	OTC Derivatives	Other off balance sheet exposure	Total non – funded	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2018:									
Less than 3 months	10,651,497	2,212,539	11,645,864	24,509,900	353,573	104,899	4,952,786	5,411,258	29,921,158
3 months to one year	6,762,694	4,549,497	193,298	11,505,489	396,915	301,514	9,877,507	10,575,936	22,081,425
One to three years	13,551,512	4,996,311	46,896	18,594,719	78,866	79,202	1,380,408	1,538,476	20,133,195
Three to five years	12,086,926	3,072,081	787	15,159,794	290,831	111,588	43,701	446,120	15,605,914
Over five years	30,918,374	4,071,978	80,616	35,070,968	770,234	266,169	121,529	1,157,932	36,228,900
Unspecified maturities	-	250,434	2,394,757	2,645,191	-	-	-	-	2,645,191
	73,971,003	19,152,840	14,362,218	107,486,061	1,890,419	863,372	16,375,931	19,129,722	126,615,783
31 December 2017:									
Less than 3 months	11,725,438	2,804,577	7,140,082	21,670,097	188,912	89,484	3,912,562	4,190,958	25,861,055
3 months to one year	7,287,476	4,417,945	4,447,552	16,152,973	12,320	217,595	10,416,427	10,646,342	26,799,315
One to three years	12,600,392	4,932,545	22,058	17,554,995	334,707	74,987	1,993,183	2,402,877	19,957,872
Three to five years	11,682,188	4,437,454	26,807	16,146,449	47,857	82,886	193,394	324,137	16,470,586
Over five years	29,290,668	4,356,888	84,560	33,732,116	651,948	182,464	197,056	1,031,468	34,763,584
Unspecified maturities	-	1,179	2,719,951	2,721,130	-	-	-	-	2,721,130
	72,586,162	20,950,588	14,441,010	107,977,760	1,235,744	647,416	16,712,622	18,595,782	126,573,542

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018 *(continued)*

IMPAIRED LOANS BY INDUSTRY SEGMENT

	Overdue			Provision		Adjustments		
	Less than 90 days AED'000	90 days and above AED'000	Total AED'000	Stage 3 AED'000	Stage 1 & 2 AED'000	Write offs AED'000	Write-back AED'000	Net impaired loans AED'000
31 December 2018:								
Financial institutions	-	115,352	115,352	18,383	-	-	-	96,969
Sovereign	-	-	-	-	-	-	-	-
Consumer	-	238,679	238,679	208,710	-	-	-	29,969
Construction	-	510,776	510,776	429,874	-	-	-	80,902
Real estate	-	709,381	709,381	293,580	-	-	-	415,801
Service	-	128,694	128,694	88,652	-	-	-	40,042
Trade	-	1,317,696	1,317,696	926,205	-	-	-	391,491
Energy	-	181	181	181	-	-	-	-
Manufacturing	-	90,019	90,019	62,399	-	-	-	27,620
Others	-	149,398	149,398	129,404	-	-	-	19,994
	-	3,260,176	3,260,176	2,157,388	1,639,798	-	-	1,102,788
31 December 2017:								
Financial institutions	-	115,403	115,403	10,661	-	-	-	104,742
Sovereign	-	-	-	-	-	-	-	-
Consumer	-	179,071	179,071	106,504	-	-	-	72,567
Construction	-	398,968	398,968	211,972	-	-	-	186,996
Real estate	-	669,684	669,684	164,261	-	-	-	505,423
Service	-	183,790	183,790	108,518	-	-	-	75,272
Trade	-	1,410,995	1,410,995	896,919	-	-	-	514,076
Energy	-	184	184	184	-	-	-	-
Manufacturing	-	112,547	112,547	62,522	-	-	-	50,025
Others	-	131,493	131,493	100,256	-	-	-	31,237
	-	3,202,135	3,202,135	1,661,797	1,448,857	-	-	1,540,338

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018 *(continued)*

IMPAIRED LOANS BY GEOGRAPHIC DISTRIBUTION

	Overdue			Provision		Adjustments		
	Less than 90 days AED'000	90 days and above AED'000	Total AED'000	Stage 3 AED'000	Stage 1 & 2 AED'000	Write offs AED'000	Write-back AED'000	Net impaired loans AED'000
31 December 2018:								
United Arab Emirates	-	2,606,026	2,606,026	1,777,466	1,593,311	-	-	828,560
GCC (excluding UAE)	-	159,994	159,994	81,674	22,934	-	-	78,320
Others	-	494,156	494,156	298,248	23,553	-	-	195,908
	-	3,260,176	3,260,176	2,157,388	1,639,798	-	-	1,102,788
31 December 2017:								
United Arab Emirates	-	2,953,821	2,953,821	1,535,378	1,392,851	-	-	1,418,443
GCC (excluding UAE)	-	166,535	166,535	69,307	36,277	-	-	97,228
Others	-	81,779	81,779	57,112	19,729	-	-	24,667
	-	3,202,135	3,202,135	1,661,797	1,448,857	-	-	1,540,338

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018 *(continued)*

RECONCILIATION OF CHANGES IN PROVISION FOR IMPAIRED LOANS

	2018				2017		
	Stage 1 impairment allowance AED'000	Stage 2 impairment allowance AED'000	Stage 3 impairment allowance AED'000	Total impairment allowance AED'000	Collective impairment allowance AED'000	Specific impairment allowance AED'000	Total impairment allowance AED'000
At 1 January (as per IAS 39)	1,448,857	-	1,661,797	3,110,654	1,524,958	1,331,951	2,856,909
Effect of change in accounting policy for IFRS 9	(699,371)	1,032,353	482,582	815,564	-	-	-
	749,486	1,032,353	2,144,379	3,926,218	1,524,958	1,331,951	2,856,909
Charge for the year (net of write backs)	(198,455)	256,197	930,730	988,472	(73,034)	1,071,097	998,063
Transfers	137,391	(336,820)	199,429	-	(4,115)	4,115	-
Amounts written off	-	-	(1,108,989)	(1,108,989)	-	(747,222)	(747,222)
Foreign currency translation	(290)	(64)	(8,161)	(8,515)	1,048	1,856	2,904
At 31 December	688,132	951,666	2,157,388	3,797,186	1,448,857	1,661,797	3,110,654

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018 *(continued)*

CREDIT EXPOSURE AS PER STANDARDIZED APPROACH

Asset classes	Net on balance sheet outstanding AED'000	Net off balance sheet exposure after CCF AED'000	Exposure before CRM AED'000	Credit Risk Mitigation (CRM) AED'000	Exposure after CRM AED'000	Risk Weighted Asset AED'000
31 December 2018:						
Claims on Sovereigns	16,673,414	5,738	16,679,152	-	16,679,152	3,569,160
Claims on non-central government public sector entities	714,997	58	715,055	-	715,055	-
Claims on multi-lateral development banks	1,356,912	-	1,356,912	-	1,356,912	-
Claims on banks	10,398,884	2,433,835	12,832,719	(131,022)	12,701,697	5,862,138
Claims on securities firms	1,872	-	1,872	-	1,872	1,872
Claims on corporate and government related enterprises	41,928,648	15,786,499	57,715,147	(2,630,156)	55,084,991	52,993,805
Claims included in the regulatory retail portfolio	18,329,784	92,451	18,422,235	(990,567)	17,431,668	14,481,230
Claims secured by residential Property	550,953	-	550,953	(119)	550,834	492,993
Claims secured by commercial real estate	10,342,193	2,626	10,344,819	(123,208)	10,221,611	10,221,610
Past due loans	3,023,483	808,515	3,831,998	(33,425)	3,798,573	5,190,424
Other assets	4,164,921	-	4,164,921	-	4,164,921	3,376,338
	107,486,061	19,129,722	126,615,783	(3,908,497)	122,707,286	96,189,570

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018 *(continued)*

CREDIT EXPOSURE AS PER STANDARDIZED APPROACH (continued)

Asset classes	Net on balance sheet outstanding AED'000	Net off balance sheet exposure after CCF AED'000	Exposure before CRM AED'000	Credit Risk Mitigation (CRM) AED'000	Exposure after CRM AED'000	Risk Weighted Asset AED'000
31 December 2017:						
Claims on Sovereigns	19,077,795	33,447	19,111,242	-	19,111,242	3,737,165
Claims on non-central government public sector entities	1,253,169	55	1,253,224	-	1,253,224	-
Claims on multi-lateral development banks	1,346,572	-	1,346,572	-	1,346,572	-
Claims on banks	8,554,854	1,857,681	10,412,535	(492,858)	9,919,677	5,106,642
Claims on securities firms	1,866	-	1,866	-	1,866	1,866
Claims on corporate and government related enterprises	40,029,846	16,028,322	56,058,168	(3,752,974)	52,305,194	50,695,852
Claims included in the regulatory retail portfolio	19,911,426	96,315	20,007,741	(1,230,698)	18,777,043	15,654,289
Claims secured by residential Property	368,789	-	368,789	(201)	368,588	347,822
Claims secured by commercial real estate	9,247,973	-	9,247,973	(17,388)	9,230,585	9,230,585
Past due loans	3,671,366	579,962	4,251,328	(15,602)	4,235,726	5,849,272
Other assets	4,514,104	-	4,514,104	-	4,514,104	3,707,412
	107,977,760	18,595,782	126,573,542	(5,509,721)	121,063,821	94,330,905

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018 *(continued)*

CREDIT EXPOSURE AS PER STANDARDIZED APPROACH (RATED/UNRATED)

	Rated AED'000	Unrated AED'000	Total AED'000	Post CRM AED'000	RWA AED'000
31 December 2018:					
Claims on Sovereigns	7,571,522	9,107,630	16,679,152	16,679,152	3,569,160
Claims on non-central government public sector entities	464,794	250,261	715,055	715,055	-
Claims on multi-lateral development banks	1,356,912	-	1,356,912	1,356,912	-
Claims on banks	11,964,061	868,658	12,832,719	12,701,697	5,862,138
Claims on securities firms	-	1,872	1,872	1,872	1,872
Claims on corporate and government related enterprises	5,281,833	52,433,314	57,715,147	55,084,991	52,993,805
Claims included in the regulatory retail portfolio	-	18,422,235	18,422,235	17,431,668	14,481,230
Claims secured by residential Property	-	550,953	550,953	550,834	492,993
Claims secured by commercial real estate	-	10,344,819	10,344,819	10,221,611	10,221,610
Past due loans	-	3,831,998	3,831,998	3,798,573	5,190,424
Other assets	-	4,164,921	4,164,921	4,164,921	3,376,338
	26,639,122	99,976,661	126,615,783	122,707,286	96,189,570

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018 *(continued)*

CREDIT EXPOSURE AS PER STANDARDIZED APPROACH (RATED/UNRATED) (continued)

	Rated AED'000	Unrated AED'000	Total AED'000	Post CRM AED'000	RWA AED'000
31 December 2017:					
Claims on Sovereigns	7,785,722	11,325,520	19,111,242	19,111,242	3,737,165
Claims on non-central government public sector entities	552,886	700,338	1,253,224	1,253,224	-
Claims on multi-lateral development banks	1,346,572	-	1,346,572	1,346,572	-
Claims on banks	9,937,589	474,946	10,412,535	9,919,677	5,106,642
Claims on securities firms	-	1,866	1,866	1,866	1,866
Claims on corporate and government related enterprises	5,225,399	50,832,769	56,058,168	52,305,194	50,695,852
Claims included in the regulatory retail portfolio	-	20,007,741	20,007,741	18,777,043	15,654,289
Claims secured by residential Property	-	368,789	368,789	368,588	347,822
Claims secured by commercial real estate	-	9,247,973	9,247,973	9,230,585	9,230,585
Past due loans	-	4,251,328	4,251,328	4,235,726	5,849,272
Other assets	-	4,514,104	4,514,104	4,514,104	3,707,412
	24,848,168	101,725,374	126,573,542	121,063,821	94,330,905

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018 *(continued)*

CREDIT RISK MITIGATION AS PER STANDARDIZED APPROACH

	31 December 2018		31 December 2017	
	AED'000	AED'000	AED'000	AED'000
Exposure prior to Credit Risk Mitigation		126,615,783		126,573,542
Less:				
Exposure covered by on-balance sheet netting	-		-	
Exposure covered by eligible financial collateral	2,309,761		2,064,757	
Exposure covered by guarantees	1,598,736		3,444,964	
Exposure covered by credit derivatives	-		-	
		3,908,497		5,509,721
Net exposure after credit risk mitigation		122,707,286		121,063,821

TOTAL CAPITAL REQUIREMENT FOR MARKET RISK UNDER STANDARDIZED APPROACH

	31 December 2018 AED'000	31 December 2017 AED'000
Interest rate risk	19,657	156
Equity position risk	12,480	73
Foreign exchange risk	62,926	68,312
Commodity risk	-	-
	95,063	68,541

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018 *(continued)*

QUANTITATIVE DETAIL OF EQUITY POSITION:

	31 December 2018			31 December 2017		
	Publicly traded AED'000	Privately held AED'000	Total AED'000	Publicly traded AED'000	Privately held AED'000	Total AED'000
Equities	79,892	51,633	131,525	59,246	53,795	113,041
Collective investment schemes	-	-	-	-	-	-
Any other investments	2,583	-	2,583	2,980	-	2,980
	82,475	51,633	134,108	62,226	53,795	116,021

As at 31 December 2018, the Group's total equity investment portfolio in the banking book amounted to AED 74.6 million of which AED 23.0 million represents quoted investments. For details of the accounting policies and valuation methodology, please refer to Note 2 (e) to the consolidated financial statements.

UNREALISED AND LATENT REVALUATION GAINS (LOSSES):

	31 December 2018 AED'000	31 December 2017 AED'000
Gains (losses):		
Unrealized gains recognized in the statement of financial position but not through statement of income **	(22,935)	100,400
Latent revaluation gains / (losses) for investments recorded at cost but not recognized in statement of financial position or statement of income	15,651	14,678
	(7,284)	115,078

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2018 *(continued)*

** Eligible amount included in Tier 1 / Tier 2 capital after applying appropriate haircut, if any, is as follows:

	31 December 2018 AED'000	31 December 2017 AED'000
Amount included in Tier 1 capital	(22,935)	45,180
Amount included in Tier 2 Capital	-	-
	(22,935)	45,180

CAPITAL REQUIREMENT BY EQUITY GROUPING

	31 December 2018 AED'000	31 December 2017 AED'000
Strategic investment	-	-
Fair value through profit and loss	12,480	5,546
Fair value through other comprehensive income	7,841	6,672
Total capital requirement	20,321	12,218

INTEREST RATE RISK IN THE BANKING BOOK

	31 December 2018		31 December 2017	
	Net interest income AED'000	Regulatory capital AED'000	Net interest income AED'000	Regulatory capital AED'000
+ 200 basis point	430,464	(599,168)	251,888	(859,696)
- 200 basis point	(430,464)	599,168	(251,888)	859,696

SKEA
DIAMOND WINNER 2012
الفائز لدورة عام ٢٠١٢
Winner of 2012 Cycle
جائزة دبي الذهبية للجودة
DUBAI QUALITY GOLD AWARD
LLOYD'S REGISTER • LRQA
ISO 9001 • ISO 14001
OHSAS 18001
UKAS
MANAGEMENT SYSTEMS
001
جائزة محمد بن راشد آل مكتوم للأعمال
MOHAMMED BIN RASHID AL MAKTOUM BUSINESS AWARD
AN INITIATIVE BY DUBAI CHAMBER OF COMMERCE & INDUSTRY
2017 WINNER