

**UNION NATIONAL BANK -
Public Joint Stock Company**

**Review report and condensed consolidated
interim financial information for the nine
month period ended 30 September 2018**

UNION NATIONAL BANK – Public Joint Stock Company

**Report and condensed consolidated interim financial information
for the nine month period ended 30 September 2018**

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

The Board of Directors
Union National Bank PJSC
Abu Dhabi
United Arab Emirates

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Union National Bank PJSC as at 30 September 2018 and the related condensed consolidated interim statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the nine-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, "*Interim Financial Reporting*". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, "*Interim Financial Reporting*".

Deloitte & Touche (M.E.)



Mohammad Khamees Al Tah
Registration Number 717
30 October 2018
Abu Dhabi
United Arab Emirates

UNION NATIONAL BANK – Public Joint Stock Company

Condensed consolidated interim statement of profit or loss for the nine month period ended 30 September 2018

	Notes	Three month period ended		Nine month period ended	
		30 September 2018 (unaudited) AED '000	30 September 2017 (unaudited) AED '000	30 September 2018 (unaudited) AED '000	30 September 2017 (unaudited) AED '000
Interest income	3	1,195,398	1,015,817	3,394,159	2,953,141
Interest expense	4	(535,809)	(394,987)	(1,429,979)	(1,129,552)
Net interest income		659,589	620,830	1,964,180	1,823,589
Income from Islamic financing		76,835	82,273	228,727	241,904
Depositors share of profit – Islamic financing		(38,206)	(27,911)	(104,913)	(84,734)
Net income from Islamic financing		38,629	54,362	123,814	157,170
Total interest income and net income from Islamic financing		698,218	675,192	2,087,994	1,980,759
Net fee and commission income	5	137,496	198,692	413,418	579,933
Net gain from dealing in foreign currencies and derivatives		18,056	17,918	42,796	79,636
Net investment income		10,622	6,322	42,840	20,931
Other operating income		12,047	34,264	57,653	90,620
Operating income		876,439	932,388	2,644,701	2,751,879
Staff costs		(209,256)	(185,596)	(607,026)	(538,702)
Depreciation		(17,806)	(18,099)	(54,920)	(53,875)
Other operating expenses		(87,261)	(80,415)	(244,920)	(273,064)
Operating expenses		(314,323)	(284,110)	(906,866)	(865,641)
Operating profit before impairment charges		562,116	648,278	1,737,835	1,886,238
Impairment charge on financial assets, net	6	(106,748)	(227,431)	(417,183)	(485,815)
Net profit before income tax		455,368	420,847	1,320,652	1,400,423
Income tax expense		(17,242)	(10,420)	(41,056)	(31,753)
Net profit for the period		438,126	410,427	1,279,596	1,368,670
Attributable to:					
Equity holders of the Bank		434,216	406,025	1,269,376	1,357,090
Non-controlling interests		3,910	4,402	10,220	11,580
Profit for the period		438,126	410,427	1,279,596	1,368,670
Basic and diluted earnings per share	21	AED 0.14	AED 0.13	AED 0.43	AED 0.46

The accompanying notes are an integral part of the condensed consolidated interim financial information.

UNION NATIONAL BANK – Public Joint Stock Company

Condensed consolidated interim statement of profit or loss and other comprehensive income for the nine month period ended 30 September 2018

	Three month period ended		Nine month period ended	
	30 September 2018 (unaudited) AED '000	30 September 2017 (unaudited) AED '000	30 September 2018 (unaudited) AED '000	30 September 2017 (unaudited) AED '000
Profit for the period	438,126	410,427	1,279,596	1,368,670
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 period	88,477	54,233	(3,632)	120,357
- Reclassification of gains included in profit or loss	338	(30)	(9,444)	(1,046)
Fair value changes on cash flow hedges	(16,280)	450	(15,941)	1,030
Exchange difference on translation of foreign operations	1,976	14,972	(4,145)	40,809
Income tax relating to items that may be reclassified subsequently to profit or loss	596	(308)	1,562	(857)
	75,107	69,317	(31,600)	160,293
Items that will not be reclassified subsequently to profit or loss:				
Movement in investment revaluation reserve for equity instruments at FVTOCI	244	-	(614)	-
Other comprehensive (loss)/income for the period, net of tax	75,351	69,317	(32,214)	160,293
Total comprehensive income for the period	513,477	479,744	1,247,382	1,528,963
Total comprehensive income attributable to:				
Equity holders of the Bank	509,611	474,889	1,237,519	1,515,738
Non-controlling interests	3,866	4,855	9,863	13,225
Total comprehensive income for the period	513,477	479,744	1,247,382	1,528,963

The accompanying notes are an integral part of the condensed consolidated interim financial information.


UNION NATIONAL BANK – Public Joint Stock Company

**Condensed consolidated interim statement of financial position
as at 30 September 2018**

	Notes	30 September 2018 (unaudited) AED '000	31 December 2017 (audited) AED '000
ASSETS			
Cash and balances with central banks	7	6,802,007	9,196,456
Due from banks	8	3,867,270	1,745,646
Loans and advances measured at amortised cost	9	69,216,196	71,137,305
Investments	10	20,337,034	21,066,609
Investment properties		2,076,013	2,040,269
Other assets		2,236,077	1,951,539
Property and equipment		320,760	298,862
Goodwill		81,111	81,418
Total assets		104,936,468	107,518,104
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	11	73,011,494	78,689,340
Due to banks	12	2,636,024	717,046
Medium term borrowings	13	7,948,837	6,491,225
Other liabilities		2,165,456	2,153,994
Total liabilities		85,761,811	88,051,605
Equity			
Share capital	14	2,751,426	2,751,426
Legal and statutory reserves		2,775,278	2,774,315
General reserve		73,944	73,944
Retained earnings		12,122,160	12,395,984
Foreign currency translation reserve		(820,236)	(816,215)
Cumulative changes in fair value		107,352	100,400
Cash flow hedge reserve		312	16,253
Tier I capital notes	15	2,000,000	2,000,000
Equity attributable to equity holders of the Bank		19,010,236	19,296,107
Non-controlling interests		164,421	170,392
Total equity		19,174,657	19,466,499
Total liabilities and equity		104,936,468	107,518,104

These condensed consolidated interim financial information was approved and authorised for issue by the Board of Directors on 30 October 2018 and signed on their behalf by:


Mohamed Bin Dhan Al Hamli
Vice Chairman


Mohammad Nasr Abdeen
Chief Executive Officer


Sanjeev Duréja
Chief Financial Officer

The accompanying notes are an integral part of the condensed consolidated interim financial information.

UNION NATIONAL BANK – Public Joint Stock Company

Condensed consolidated interim statement of changes in equity for the nine month period ended 30 September 2018

		Attributable to equity holders of the Bank										
	Notes	Share capital AED '000	Legal and statutory reserves AED '000	General reserve AED '000	Retained earnings AED '000	Foreign currency translation reserve AED '000	Cumulative changes in fair value AED '000	Cash flow hedge reserve AED '000	Tier I capital notes AED '000	Equity attributable to equity holders of the Bank AED '000	Non-controlling interests AED '000	Total equity 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 period		-	-	-	1,269,376	-	-	-	-	1,269,376	10,220	1,279,596
Other comprehensive loss for the period		-	-	-	-	(4,021)	(11,895)	(15,941)	-	(31,857)	(357)	(32,214)
Total comprehensive income/(loss) for the period		-	-	-	1,269,376	(4,021)	(11,895)	(15,941)	-	1,237,519	9,863	1,247,382
Cash dividend	14	-	-	-	(550,285)	-	-	-	-	(550,285)	(6,370)	(556,655)
Transfer to legal and statutory reserves		-	963	-	(963)	-	-	-	-	(86,672)	-	(86,672)
Interest on Tier I capital notes		-	-	-	507	-	-	-	-	507	-	507
Realised gain on FVTOCI – Equity		-	-	-	-	-	-	-	-	-	-	-
At 30 September 2018 (unaudited)		2,751,426	2,775,278	73,944	12,122,160	(820,236)	107,352	312	2,000,000	19,010,236	164,421	19,174,657
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 period		-	-	-	1,357,090	-	-	-	-	1,357,090	11,580	1,368,670
Other comprehensive income for the period		-	-	-	-	39,292	118,326	1,030	-	158,648	1,645	160,293
Total comprehensive income for the period		-	-	-	1,357,090	39,292	118,326	1,030	-	1,515,738	13,225	1,528,963
Cash dividend	14	-	-	-	(550,285)	-	-	-	-	(550,285)	(6,370)	(556,655)
Transfer to legal and statutory reserves		-	6,665	-	(6,665)	-	-	-	-	-	-	-
Transfer to general reserve		-	-	2,029	(2,029)	-	-	-	-	-	-	-
Interest on Tier I capital notes		-	-	-	(78,022)	-	-	-	-	(78,022)	-	(78,022)
Other movement in non-controlling interest		-	73	-	(439)	-	-	-	-	(366)	366	-
At 30 September 2017 (unaudited)		2,751,426	2,758,164	62,987	12,141,208	(813,023)	168,997	13,902	2,000,000	19,083,661	169,779	19,253,440

The accompanying notes are an integral part of the condensed consolidated interim financial information.

UNION NATIONAL BANK – Public Joint Stock Company

**Condensed consolidated interim statement of cash flows
for the nine month period ended 30 September 2018**

	Note	Nine month period ended	
		30 September 2018 (unaudited) AED '000	30 September 2017 (unaudited) AED '000
Net cash (used in)/from operating activities		(3,152,567)	1,565,835
Net cash from/(used in) investing activities		984,302	(3,027,909)
Net cash from financing activities		627,329	354,117
Net decrease in cash and cash equivalents		(1,540,936)	(1,107,957)
Cash and cash equivalents at the beginning of the period		6,358,543	6,080,273
Cash and cash equivalents at end of the period	18	4,817,607	4,972,316

The accompanying notes are an integral part of the condensed consolidated interim financial information.

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 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 (2) of 2015. The Bank carries on commercial and investment banking activities through its seventy five 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 condensed consolidated interim financial information 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 of Subsidiary	Proportion of ownership interest	Year of incorporation	Country of incorporation	Principal activities
Union Brokerage LLC (“UBC”)	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%	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%	1981	Egypt	Commercial banking related activities through forty eight branches in Egypt.
Union National Bank (BVI) Ltd.	100%	2017	British Virgin Islands	Treasury dealing activities.

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Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation

2.1 New and revised IFRSs applied with no material effect on the condensed consolidated interim financial information

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.

2.2 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*

1 January 2019

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.

IFRIC 23 *Uncertainty over Income Tax Treatments*

1 January 2019

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.

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

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

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IAS 28 <i>Investment in Associates and Joint Ventures</i> 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 <i>Employee Benefits</i> Employee benefit Amendments regarding plan amendments, curtailments or settlements.	1 January 2019
IFRS 9 <i>Financial Instruments</i> Amendments regarding prepayment features with negative compensation and modifications of financial liabilities	1 January 2019
IFRS 11 <i>Joint Arrangements</i> Amendments resulting from Annual Improvements 2015–2017 Cycle (remeasurement of previously held interest)	1 January 2019
IAS 12 <i>Income Taxes</i> Amendments resulting from Annual Improvements 2015–2017 Cycle (income tax consequences of dividends)	1 January 2019

2.3 Statement of compliance and consolidation

This condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2017. In addition, results for the nine month period ended 30 September 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

Inter-company transactions, balances and unrealised gains on transactions between the Bank and the Subsidiaries are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provided evidence of impairment of the assets transferred. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Adjustments have been made to the financial statements of the Subsidiaries, where necessary, to align with the Bank's financial statements to ensure consistency with the policies adopted by the Bank.

Items included in this condensed consolidated interim financial information of the Group are measured in United Arab Emirates Dirham (“AED”), rounded to the nearest thousand, which is the functional currency of the Bank and presentation currency of the Group.

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.4 Critical accounting judgments and key sources of estimation uncertainty

The Group makes judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements of the Group as at and for the year ended 31 December 2017, except for changes relating to IFRS 9 discussed in note 2.5 below.

2.5 Significant accounting policies

The accounting policies, presentation and methods of computation followed by the Group in this condensed consolidated interim financial information are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2017, except as required by adoption of IFRS 9 Financial Instruments.

2.5.1 Foreign currencies

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

- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under Derivative financial instruments and Hedge accounting); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognised initially in OCI and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in OCI and accumulated in a separate component of equity (attributed to NCI if appropriate).

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.2 Net interest income

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in ‘Net interest income’ as ‘Interest income’ in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, see ‘Net investment income’.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Interest income and expense in the Group’s interim condensed consolidated statement of profit or loss also includes the effective portion of fair value changes of derivatives designated as hedging instruments in cash flow hedges of interest rate risk. For fair value hedges of interest rate risk interest income and expense, the effective portion of fair value changes of the designated derivatives as well as the fair value changes of the designated risk of the hedged item are also included in interest income and expense.

2.5.3 Net fee and commission income

Fee and commission income and expense include fees other than those that are an integral part of EIR. The fees included in this part of the Group’s interim condensed consolidated statement of profit or loss include among other things fees charged for servicing a loan, non-utilisation fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement and loan syndication fees.

Fee and commission expenses with regards to services are accounted for as the services are received.

2.5.4 Net gain from dealing in foreign currencies and derivatives

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

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.5 Net investment income

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 FVTPL and dividend income. Gains and losses arising from changes in fair value of FVTOCI are recognised in the statement of other comprehensive income. Once the FVTOCI investments 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.

2.5.6 Dividend income

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities. Dividend income is recognized in ‘Net investment income’.

2.5.7 Financial instruments

As required by Securities and Commodities Authority (“SCA”) notification no. 2617/2008 dated 12 October 2008 and notification no. 75/2009 dated 6 January 2009, accounting policies related to financial instruments as disclosed in the year-end financial statements is provided below.

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) *Financial assets*

Classification

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.

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.

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.

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Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) *Financial assets (continued)*

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

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 condensed consolidated interim 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 interim condensed consolidated statement of profit or loss, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in the interim condensed consolidated statement of profit or loss when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue, 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.

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 interim condensed consolidated statement of profit or loss. The net gain or loss recognised in the interim condensed 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 interim condensed 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.

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) *Financial assets (continued)*

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.

Impairment of financial assets

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

- loans and advances to banks;
- loans and advances to customers;
- debt investment securities;
- lease receivables;
- loan commitments issued; and
- financial guarantee contracts issued.

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).

The Group's policy is always to measure loss allowances for lease receivables as lifetime ECL.

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.

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Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) *Financial assets (continued)*

Impairment of financial assets (continued)

- 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 and on a collective basis for certain 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:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider.

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 sovereign and corporate debt instruments are credit impaired, the Group considers factors such as credit ratings and the ability of the borrower to raise funding.

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 unlikelihood to pay indicators and a backstop if amounts are overdue for 90 days or more.

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Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) *Financial assets (continued)*

Impairment of 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.

Significant increase in credit risk

The Group monitors all financial assets, issued loan commitments 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.

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) Financial assets (continued)

Impairment of financial assets (continued)

Significant increase in credit risk (continued)

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, 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, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, as well as internally generated information of customer payment behaviour. 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 PDs used are forward looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL. Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However the Group still 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.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

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Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) Financial assets (continued)

Impairment of financial assets (continued)

Significant increase in credit risk (continued)

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.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Group has an established forbearance policy which applies for corporate and retail lending.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) *Financial assets (continued)*

Modification and derecognition of financial assets (continued)

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the PD estimated based on data at initial recognition and the original contractual terms; with
- the PD at the reporting date based on the modified terms.

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forbore loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. 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.

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) *Financial assets (continued)*

Modification and derecognition of financial assets (continued)

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 or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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 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.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;
- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(b) *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.

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

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

Financial liabilities (continued)

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

- 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.

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(b) Financial liabilities and equity instruments (continued)

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.

(c) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amounts reported in the condensed consolidated interim 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.

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.

(d) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 17.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

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Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(d) *Derivative financial instruments (continued)*

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.

(e) *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.

The Group does not use the exemption to continue using IAS 39 hedge accounting rules, i.e. the Group applies IFRS 9 hedge accounting rules in full.

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 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.

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(e) Hedge accounting (continued)

Fair value hedges (continued)

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.

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(f) *Fair value measurement principles*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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 value 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, 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 options 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.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.8 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.

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 period.

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'.

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.

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.8 IFRS 9 transition impact disclosure (continued)

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

IAS 39 Financial assets	IAS 39 Measurement category	IAS 39 carrying amount AED'000	Reclassifications AED'000	Remeasurement AED'000	IFRS 9 carrying amount AED'000	IFRS 9 measurement category	IFRS 9
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		

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Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.8 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 AED'000	Transition Adjustments AED'000	Impairment allowance under IFRS 9 as at 1 January 2018 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
	<hr/>	<hr/>	<hr/>
Total allowance for credit losses	3,121,576	896,404	4,017,980
	<hr/>	<hr/>	<hr/>

UNION NATIONAL BANK – Public Joint Stock Company

**Notes to the condensed consolidated interim financial information
for the nine month period ended 30 September 2018 (continued)**

3 Interest income

	Three month period ended		Nine month period ended	
	30 September 2018 AED'000 (unaudited)	30 September 2017 AED'000 (unaudited)	30 September 2018 AED'000 (unaudited)	30 September 2017 AED'000 (unaudited)
Loans and advances	920,986	826,842	2,664,214	2,449,299
Due from banks	56,900	43,164	147,794	93,725
Investments	217,512	145,811	582,151	410,117
	1,195,398	1,015,817	3,394,159	2,953,141

4 Interest expense

	Three month period ended		Nine month period ended	
	30 September 2018 AED'000 (unaudited)	30 September 2017 AED'000 (unaudited)	30 September 2018 AED'000 (unaudited)	30 September 2017 AED'000 (unaudited)
Customers' deposits	460,292	342,454	1,215,163	985,644
Due to banks and medium term borrowings	75,517	52,533	214,816	143,908
	535,809	394,987	1,429,979	1,129,552

5 Net fee and commission income

	Three month period ended		Nine month period ended	
	30 September 2018 AED'000 (unaudited)	30 September 2017 AED'000 (unaudited)	30 September 2018 AED'000 (unaudited)	30 September 2017 AED'000 (unaudited)
Fee and commission income:				
Credit related fees	47,891	38,244	128,700	134,653
Trade related fees	42,665	47,645	124,884	138,206
Retail fees	33,739	98,459	115,873	248,868
Account service charges	20,778	22,116	65,719	69,788
Brokerage income	1,189	859	3,730	4,454
Others	9,825	9,457	27,647	31,516
	156,087	216,780	466,553	627,485
Fee and commission expenses	(18,591)	(18,088)	(53,135)	(47,552)
	137,496	198,692	413,418	579,933

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Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

6 Impairment charge on financial assets, net

	Three month period ended		Nine month period ended	
	30 September 2018 AED'000 (unaudited)	30 September 2017 AED'000 (unaudited)	30 September 2018 AED'000 (unaudited)	30 September 2017 AED'000 (unaudited)
Charge on loans and advances	302,378	292,503	722,246	743,015
Write backs on loans and advances	(128,766)	(14,298)	(163,043)	(95,793)
Impairment charge on loans and advances, net	173,612	278,205	559,203	647,222
Recovery of loans and advances	(43,009)	(42,879)	(117,138)	(150,665)
Impairment charge on balances with central banks	-	-	448	-
Impairment charge on due from banks	(129)	-	(1,444)	-
Impairment charge on investments measured at amortised cost	123	-	(914)	-
Impairment charge on investments measured at FVTOCI	-	-	(135)	-
Impairment charge on other assets	(16,265)	-	(13,616)	-
Impairment charge on contingent liabilities	(7,584)	(7,895)	(9,221)	(10,742)
	106,748	227,431	417,183	485,815

7 Cash and balances with central banks

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Cash on hand	567,882	772,787
Balances with central banks		
- Certificates of deposit	2,900,000	4,050,000
- Cash reserve deposits	3,082,721	2,732,430
- Deposits and other balances	252,575	1,641,239
	6,803,178	9,196,456
Less: Allowance for impairment	(1,171)	-
	6,802,007	9,196,456

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

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

8 Due from banks

Geographic concentrations and tenure of due from banks as required by SCA vide their notification 2617/2008 dated 12 October 2008 is as follows:

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Due from banks:		
- Local banks	2,353,668	940,937
- Foreign banks	1,514,200	804,813
	3,867,868	1,745,750
Less: Allowance for impairment	(598)	(104)
	3,867,270	1,745,646
	3,755,266	1,437,738
Due from banks:		
- Up to 3 months	112,004	307,908
- Over 3 months	3,867,270	1,745,646

9 Loans and advances measured at amortised cost

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Term loans	60,698,574	61,390,833
Overdrafts	6,050,427	6,905,938
Islamic financing	5,774,430	5,671,577
Others	234,541	279,611
	72,757,972	74,247,959
Less: Allowance for impairment	(3,541,776)	(3,110,654)
	69,216,196	71,137,305

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

9 Loans and advances measured at amortised cost (continued)

The movements in impairment allowance during the period/year are as follows:

	30 September 2018	31 December 2017		
	Impairment allowance AED'000 (unaudited)	Specific impairment allowance AED'000 (audited)	Collective impairment allowance AED'000 (audited)	Total impairment allowance AED'000 (audited)
At 1 January (as per IAS 39)	3,110,654	1,331,951	1,524,958	2,856,909
Effect of change in accounting policy for IFRS 9	815,564	-	-	-
At 1 January (restated as per IFRS 9)	<u>3,926,218</u>	<u>1,331,951</u>	<u>1,524,958</u>	<u>2,856,909</u>
Charge for the period/year (net of write backs)	559,203	1,071,097	(73,034)	998,063
Amounts written off/transferred (net)	(943,386)	(743,107)	(4,115)	(747,222)
Foreign currency translation	(259)	1,856	1,048	2,904
	<u><u>3,541,776</u></u>	<u><u>1,661,797</u></u>	<u><u>1,448,857</u></u>	<u><u>3,110,654</u></u>

Analysis of loans and advances by economic sector is as follows:

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Consumer	19,678,845	20,516,639
Real estate and mortgage loans	12,378,106	11,064,914
Financial institutions	9,723,077	9,253,621
Trade	6,146,324	5,648,120
Services	5,998,950	7,016,487
Energy	3,994,873	4,259,996
Construction	3,843,773	4,095,460
Sovereign	3,499,946	4,651,401
Manufacturing	3,301,309	3,443,975
Others	4,192,769	4,297,346
Gross loans and advances	<u>72,757,972</u>	<u>74,247,959</u>
Less: Allowance for impairment	<u>(3,541,776)</u>	<u>(3,110,654)</u>
Net loans and advances	<u>69,216,196</u>	<u>71,137,305</u>

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

9 Loans and advances measured at amortised cost (continued)

Islamic financing measured at amortised cost

Loans and advances include the following Islamic financing contracts:

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Murabaha	3,124,652	2,994,016
Ijara	1,984,127	1,997,771
Mudaraba	8,670	3,408
Others	656,981	676,382
	5,774,430	5,671,577
Less: Allowance for impairment	(381,554)	(204,769)
	5,392,876	5,466,808

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

	30 September 2018	31 December 2017		
	Impairment allowance AED'000 (unaudited)	Specific impairment allowance AED'000 (audited)	Collective impairment allowance AED'000 (audited)	Total impairment allowance AED'000 (audited)
At 1 January (as per IAS 39)	204,769	130,885	63,665	194,550
Effect of change in accounting policy for IFRS 9	204,809	-	-	-
At 1 January (restated as per IFRS 9)	409,578	130,885	63,665	194,550
Charge for the period/year (net of write backs)	(11,681)	32,772	647	33,419
Amounts written off/transferred (net)	(16,343)	(23,200)	-	(23,200)
	381,554	140,457	64,312	204,769

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

10 Investments

The analysis of Group's investments as at 30 September 2018 (classified in accordance with IFRS 9) is as follows:

	Investments measured at fair value			Total AED'000
	Investments measured at amortised cost AED'000	Fair value through other comprehensive income AED'000	Fair value through profit or loss AED'000	
30 September 2018 (unaudited)				
Equity instruments:				
Quoted	-	25,012	78,226	103,238
Unquoted	-	51,638	-	51,638
Debt instruments:				
Quoted - fixed rate	1,148,664	15,839,495	285,706	17,273,865
Quoted - floating rate	-	422,729	-	422,729
Unquoted - fixed rate	169,013	-	-	169,013
Treasury bills	6,056	2,316,427	-	2,322,483
Investment in managed funds	-	-	2,725	2,725
	1,323,733	18,655,301	366,657	20,345,691
Less: Allowance for impairment	(8,657)	-	-	(8,657)
	1,315,076	18,655,301	366,657	20,337,034

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

	Non-trading investments				Total AED'000
	Trading investments AED'000	Designated at fair value through profit or loss AED'000	Available for sale AED'000	Held to maturity AED'000	
31 December 2017 (audited)					
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

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

10 Investments (continued)

Geographic concentrations and tenor of investments as required by SCA vide their notification 2617/2008 dated 12 October 2008 is as follows:

Maturity analysis of investments is provided in the below table:

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Investments:		
Up to 3 months	2,518,477	2,804,577
3 months to 1 year	5,473,452	4,417,945
1 year to 3 years	4,838,508	4,932,544
3 years to 5 years	3,231,137	4,437,455
Over 5 years	3,873,840	4,398,573
Unspecified maturity	401,620	75,515
	<u>20,337,034</u>	<u>21,066,609</u>

	30 September 2018			31 December 2017		
	Trading investments AED'000 (unaudited)	Non-trading investments AED'000 (unaudited)	Total AED'000 (unaudited)	Trading investments AED'000 (audited)	Non-trading investments AED'000 (audited)	Total AED'000 (audited)
Within U.A.E.	225,209	12,269,715	12,494,924	-	12,073,830	12,073,830
Outside U.A.E.	141,448	7,700,662	7,842,110	1,526	8,991,253	8,992,779
	<u>366,657</u>	<u>19,970,377</u>	<u>20,337,034</u>	<u>1,526</u>	<u>21,065,083</u>	<u>21,066,609</u>

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 770,961 thousand (31 December 2017: AED 272,191 thousand). The related liability amounting to AED 771,677 thousand (31 December 2017: AED 274,525 thousand) is included in due to banks.

UNION NATIONAL BANK – Public Joint Stock Company

**Notes to the condensed consolidated interim financial information
for the nine month period ended 30 September 2018 (continued)**

11 Customers' deposits

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Time deposits	52,945,626	57,027,858
Current and call accounts	12,618,413	13,687,096
Islamic deposits	5,051,257	5,706,775
Saving accounts	1,628,775	1,583,331
Sundry deposits	767,423	684,280
	<u>73,011,494</u>	<u>78,689,340</u>

Analysis of customers' deposits by sector is shown below:

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Sovereign	26,984,511	26,538,471
Corporate	25,616,876	29,021,442
Public Sector	11,192,012	13,902,860
Retail	9,218,095	9,226,567
	<u>73,011,494</u>	<u>78,689,340</u>

12 Due to banks

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Deposits	1,232,775	281,381
Overnight and short term placements	1,105,355	349,119
Demand	297,894	86,546
	<u>2,636,024</u>	<u>717,046</u>

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Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

13 Medium term borrowings

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Euro medium term notes	5,194,433	3,742,042
Term loan	2,754,404	2,749,183
	7,948,837	6,491,225

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

	<i>Maturity</i>	<i>Fixed/Floating</i>	<i>Interest rate</i>	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Euro medium term notes					
CHF	March 2018	Floating	3 month CHF Libor + 0.98% margin	-	376,968
JPY	November 2018	Fixed	1%	80,765	81,488
USD	October 2021	Fixed	2.75%	2,194,777	2,192,329
USD	February 2022	Floating	3 month USD Libor + 1.40% margin	1,092,944	1,091,257
USD	March 2023	Fixed	4%	1,825,947	-
Term loan					
USD	October 2018	Floating	3 month USD Libor + 0.75% margin	2,754,404	2,749,183
				7,948,837	6,491,225

14 Share capital

The authorized share capital of the Bank is 5,000,000 thousand shares of AED 1 each (31 December 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 (31 December 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).

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

15 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 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 period ended 30 September 2018, interest amounting to AED 86,672 thousand was paid (period ended 30 September 2017: AED 78,022 thousand) and shown in the condensed consolidated interim statement of changes in equity.

16 Contingent liabilities and commitments

	30 September 2018 AED’000 (unaudited)	31 December 2017 AED’000 (audited)
Contingent liabilities:		
Letters of guarantee	27,055,637	29,106,444
Letters of credit	2,633,205	2,142,403
	<u>29,688,842</u>	<u>31,248,847</u>
Commitments:		
Loan commitments	15,724,305	14,408,307
Investment properties commitments	161,638	219,338
Capital expenditure commitments	88,254	55,692
Operating lease commitments	57,281	37,989
	<u>16,031,478</u>	<u>14,721,326</u>
	<u>45,720,320</u>	<u>45,970,173</u>

The Group has recognised impairment allowance of AED 55,822 thousand (31 December 2017: AED 10,818 thousand) and has been included in other liabilities.

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

17 Derivatives

The contractual/notional amounts of the Group's outstanding derivative instruments are as follows:

	Contractual/ notional Amount AED'000	Positive fair value AED'000	Negative fair value AED'000	Net fair value AED'000
30 September 2018 (unaudited)				
Derivatives held for trading:				
Forward foreign exchange contracts	12,126,612	25,176	(858)	24,318
Interest rate swaps	5,266,519	136,177	(98,513)	37,664
FX options	881,187	621	(621)	-
Cross currency swaps	383,208	17,805	(17,531)	274
Commodities - Forwards	93,380	1,712	(1,712)	-
FX time options	32,796	303	(387)	(84)
	<u>18,783,702</u>	<u>181,794</u>	<u>(119,622)</u>	<u>62,172</u>
Derivatives held as fair value hedge:				
Interest rate swaps	11,054,959	304,763	(38,129)	266,634
Derivatives held as cash flow hedge:				
Interest rate swaps	2,387,450	312	-	312
	<u>32,226,111</u>	<u>486,869</u>	<u>(157,751)</u>	<u>329,118</u>
31 December 2017 (audited)				
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)
	<u>16,479,612</u>	<u>90,206</u>	<u>(84,923)</u>	<u>5,283</u>
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
	<u>26,807,116</u>	<u>203,820</u>	<u>(147,252)</u>	<u>56,568</u>

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

18 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with the central banks, treasury bills, due from banks and due to banks maturing within three months from the date of acquisition, which are subject to insignificant risk of changes in fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents included in the condensed consolidated interim statement of cash flows comprise the following:

	30 September 2018 AED'000 (unaudited)	30 September 2017 AED'000 (unaudited)
Cash and balances with central banks	6,802,007	6,720,244
Treasury bills	2,322,483	1,663,349
Due from banks	3,867,270	3,159,340
Due to banks	(2,636,024)	(2,269,766)
	10,355,736	9,273,167
<i>Less: Original maturities more than 3 months</i>		
Cash and balances with central banks	2,602,035	3,060,820
Treasury bills	2,321,288	1,172,295
Due from banks	635,412	474,835
Due to banks	(20,606)	(407,099)
	4,817,607	4,972,316

19 Related party transactions

A party is related to the Bank if:

- i. directly, or indirectly through one or more intermediaries, is controlled by, or is under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); has an interest in the Bank that gives it significant influence over the Bank; or has joint control over the Bank;
- ii. the party is an associate of the Bank;
- iii. the party is a joint venture in which the Bank is a venturer;
- iv. the party is a member of the key management personnel of the Bank 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 Bank, or of any entity that is a related party of the Bank.

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

19 Related party transactions (continued)

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 Bank engages in transactions with related parties only on arm's length terms and in accordance with relevant laws and regulations. During the period, there was a change in the ownership structure of the Bank's parent, as a result new related party balances and transactions have been identified which have been included in the note below.

The significant balances included in these condensed consolidated interim financial information are as follows:

	Ultimate controlling party and its related entities AED'000	Directors and their related entities AED'000	Key management AED'000	Associate AED'000	Total AED'000
30 September 2018 (unaudited)					
Due from banks	1,681,849	21	-	-	1,681,870
Loans and advances	5,734,910	2,040,344	1,946	-	7,777,200
Investments	7,715,642	-	-	-	7,715,642
Other assets	428,233	5,727	5	-	433,965
Customers' deposits	25,336,352	134,826	235	190,982	25,662,395
Due to banks	849,271	-	-	-	849,271
Other liabilities	198,740	123	-	4,867	203,730
Tier I capital notes	2,000,000	-	-	-	2,000,000
Commitments and contingencies	3,039,417	13,301	-	-	3,052,718
Derivatives (contractual / notional amounts)	11,414,873	-	-	-	11,414,873
Post-retirement benefits payable	-	-	10,411	-	10,411
31 December 2017 (audited)					
Due from banks	375,977	16	-	-	375,993
Loans and advances	6,302,386	3,465,537	6,595	-	9,774,518
Investments	7,036,326	-	-	-	7,036,326
Other assets	148,902	20,043	14	-	168,959
Customers' deposits	30,877,427	105,480	556	199,007	31,182,470
Due to banks	807,140	-	-	-	807,140
Other liabilities	240,906	450	1	139	241,496
Tier I capital notes	2,000,000	-	-	-	2,000,000
Commitments and contingencies	2,945,464	141,976	-	-	3,087,440
Derivatives (contractual / notional amounts)	10,237,351	22,240	-	-	10,259,591
Post-retirement benefits payable	-	-	12,456	-	12,456

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Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

19 Related party transactions (continued)

The significant transactions with related parties included in these condensed consolidated interim financial information are as follows:

	Ultimate controlling party and its related entities AED'000	Directors and their related entities AED'000	Key management AED'000	Associates AED'000	Total AED'000
For the nine month period ended 30 September 2018 (unaudited)					
Interest income	343,611	56,811	49	-	400,471
Profit income	-	-	-	-	-
Interest expense	391,274	2,602	5	-	393,881
Profit expense	11,221	-	-	4,694	15,915
Net fee and commission income	18,471	509	-	-	18,980
Net gain/(loss) from dealing in foreign currencies and derivatives	251,237	-	-	-	251,237
Other operating expenses	-	-	-	1,017	1,017
Interest on Tier 1 capital notes	86,672	-	-	-	86,672
Directors' remuneration	-	7,227	-	-	7,227
Salary and benefits	-	-	26,596	-	26,596
Post-retirement benefits	-	-	1,358	-	1,358
For the nine month period ended 30 September 2017 (unaudited)					
Interest income	244,045	92,334	112	-	336,491
Profit income	1,428	-	-	-	1,428
Interest expense	421,270	3,691	8	-	424,969
Profit expense	20,668	-	-	2,445	23,113
Net fee and commission income	21,263	2,159	8	-	23,430
Net gain/(loss) from dealing in foreign currencies and derivatives	(7,369)	-	-	-	(7,369)
Interest on Tier 1 capital notes	78,022	-	-	-	78,022
Directors' remuneration	-	7,615	-	-	7,615
Salary and benefits	-	-	25,151	-	25,151
Post-retirement benefits	-	-	1,406	-	1,406

Interest rates on loans and advances to related parties during the period ended 30 September 2018 ranged from 1.4% to 16.0% per annum (period ended 30 September 2017: 1.3% to 16.0% per annum). Interest rates on deposits from related parties during the period ended 30 September 2018 ranged from 0% to 3.6% per annum (period ended 30 September 2017: 0% to 5.0% per annum).

Fees and commissions rates on transactions with related parties during the period ended 30 September 2018 ranged from 0% to 3.0% per annum (period ended 30 September 2017: 0% to 3.0% per annum).

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

20 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.

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

20 Operating segments (continued)

The below table presents segmental income, expenses, profit and capital expenditure for the nine month period ended 30 September 2018 (unaudited):

	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	670,991	728,418	130,077	247,905	310,603	2,087,994
Other operating income	193,459	170,140	80,016	91,802	21,290	556,707
Operating income	864,450	898,558	210,093	339,707	331,893	2,644,701
Other operating expenses	(160,858)	(475,100)	(79,287)	(57,140)	(79,561)	(851,946)
Depreciation	(9,870)	(22,470)	(2,572)	(4,276)	(15,732)	(54,920)
Operating profit	693,722	400,988	128,234	278,291	236,600	1,737,835
Impairment (charge)/release on financial assets, net	(69,046)	(283,917)	12,977	1,915	(79,112)	(417,183)
Income tax expense	-	-	-	-	(41,056)	(41,056)
Profit for the period	624,676	117,071	141,211	280,206	116,432	1,279,596
Segment capital expenditure	117	7,738	1,893	134	45,996	55,878

The below table presents segmental assets and liabilities as on 30 September 2018 (unaudited):

	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
Reportable segment assets	37,401,130	18,931,905	9,084,035	28,810,283	10,709,115	104,936,468
Reportable segment liabilities	28,920,252	12,408,975	6,443,327	28,481,996	9,507,261	85,761,811

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Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

20 Operating segments (continued)

The below table presents segmental income, expenses, profit and capital expenditure for the nine month period ended 30 September 2017 (unaudited):

	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	658,988	750,890	142,717	153,156	275,008	1,980,759
Other operating income	193,226	315,271	106,545	122,124	33,954	771,120
Operating income	852,214	1,066,161	249,262	275,280	308,962	2,751,879
Other operating expenses	(160,700)	(430,706)	(69,912)	(54,705)	(95,743)	(811,766)
Depreciation	(10,671)	(24,409)	(2,194)	(4,367)	(12,234)	(53,875)
Operating profit	680,843	611,046	177,156	216,208	200,985	1,886,238
Impairment (charge)/release on financial assets, net	(139,777)	(326,217)	(1,581)	1,366	(19,606)	(485,815)
Income tax expense	-	-	-	-	(31,753)	(31,753)
Profit for the period	541,066	284,829	175,575	217,574	149,626	1,368,670
Segment capital expenditure	81	7,462	1,140	116	74,724	83,523

The below table presents segmental assets and liabilities as on 31 December 2017 (audited):

	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
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

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

20 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:

	Nine month period ended 30 September 2018			Nine month period ended 30 September 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	1,926,719	161,275	2,087,994	1,834,953	145,806	1,980,759
Other operating income	517,641	39,066	556,707	724,285	46,835	771,120
Operating income	2,444,360	200,341	2,644,701	2,559,238	192,641	2,751,879
Other operating expenses	(763,526)	(88,420)	(851,946)	(719,681)	(92,085)	(811,766)
Depreciation	(41,658)	(13,262)	(54,920)	(44,887)	(8,988)	(53,875)
Operating profit	1,639,176	98,659	1,737,835	1,794,670	91,568	1,886,238
Impairment charge on financial assets, net	(338,063)	(79,120)	(417,183)	(466,208)	(19,607)	(485,815)
Income tax expense	-	(41,056)	(41,056)	-	(31,753)	(31,753)
Profit for the period	1,301,113	(21,517)	1,279,596	1,328,462	40,208	1,368,670

The Banks's assets and liabilities by geographical area are as follows:

	As on 30 September 2018 (unaudited)			As on 31 December 2017 (audited)		
	Domestic AED'000	International AED'000	Total AED'000	Domestic AED'000	International AED'000	Total AED'000
Assets	96,326,267	8,610,201	104,936,468	100,560,855	6,957,249	107,518,104
Liabilities	77,866,374	7,895,437	85,761,811	81,827,541	6,224,064	88,051,605

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Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

20 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 (unaudited) Nine month period ended		Inter-segment (unaudited) Nine month period ended	
	30 September 2018 AED'000	30 September 2017 AED'000	30 September 2018 AED'000	30 September 2017 AED'000
Corporate banking	997,535	990,115	(133,085)	(137,901)
Consumer banking	1,103,177	1,179,067	(204,619)	(112,906)
Islamic banking	200,993	247,926	9,100	1,336
Treasury and Investment banking	125,691	118,326	214,016	156,954
International and unallocated	217,305	216,445	114,588	92,517
Total	2,644,701	2,751,879	-	-

21 Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to equity holders of the Bank by the weighted average number of shares outstanding during the period as set out below:

	Three month period ended		Nine month period ended	
	30 September 2018 AED'000 (unaudited)	30 September 2017 AED'000 (unaudited)	30 September 2018 AED'000 (unaudited)	30 September 2017 AED'000 (unaudited)
Profit for the period attributable to equity holders of the Bank	434,216	406,025	1,269,376	1,357,090
Less: Interest on Tier I capital notes	(45,180)	(39,475)	(86,672)	(78,022)
Profit for the period attributable to equity holders of the Bank after interest on Tier 1 capital notes	389,036	366,550	1,182,704	1,279,068
Shares as at 1 January (Thousand)	2,751,426	2,751,426	2,751,426	2,751,426
Effect of bonus shares issued (Thousand)	-	-	-	-
Weighted average number of shares outstanding during the period (Thousand)	2,751,426	2,751,426	2,751,426	2,751,426
Basic and diluted earnings per share (AED)	0.14	0.13	0.43	0.46

UNION NATIONAL BANK - Public Joint Stock Company

**Notes to the condensed consolidated interim financial information
for the nine month period ended 30 September 2018 (continued)**

22 Capital adequacy

The table below show the regulatory capital and capital charge calculated in accordance with the guidelines of the Central Bank of the UAE under Basel III.

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Capital Base:		
Tier I Capital		
Common Equity Tier 1 (CET 1)	17,002,201	16,740,054
Additional Tier 1 capital (AT 1)	2,000,000	1,790,213
Total (a)	19,002,201	18,530,267
Eligible Tier 2 Capital (b)	1,179,729	1,169,349
Total capital base (a) + (b)	20,181,930	19,699,616
Risk-weighted assets:		
Credit Risk	94,378,333	94,330,905
Market Risk	1,035,197	652,767
Operational Risk	6,444,737	6,444,737
Total risk-weighted assets (c)	101,858,267	101,428,409
Capital adequacy ratio {(a) + (b)} / (c) x 100	19.8%	19.4%

UNION NATIONAL BANK - Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

23 Fair value measurement

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-optional derivatives and standard option pricing models such as Black Scholes and other valuation models for optional 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 private equity instruments and private funds.

The carrying values of the investments are adjusted as follows:

- a) Private equity instruments – using the latest available net book value; and
- b) Private funds – based on the net asset value provided by the fund manager.

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 include:

Comparable method: This method of valuation utilises evidence of transactions or current asking prices of similar properties in the immediate vicinity and, if appropriate, applies adjustments to the figures based on market research, discussion with independent agents and in some cases, developers and / or construction companies.

UNION NATIONAL BANK - Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

23 Fair value measurement (continued)

Income capitalisation method: This method of valuation basically utilises the evidence of lease transactions or current asking prices of similar properties in the immediate vicinity and if appropriate applying some adjustments to the lease rates based on market research, discussion with independent agents. The market rent is adjusted for the maintenance cost and void allowances, of the property and capitalised at an appropriate yield to arrive at the fair value.

Residual value method: The 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.

The below table shows the hierarchy used by the Group to determine the fair value of the assets and liabilities that are measured at fair value or for which fair value information is disclosed as at 30 September 2018 (unaudited):

	Notes	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	10	363,932	2,725	-	366,657
Investments measured at fair value through other comprehensive income	10	16,287,236	2,316,427	51,638	18,655,301
Derivative financial instruments	17	-	486,869	-	486,869
Other assets		-	200,980	-	200,980
Investment properties		-	-	2,076,013	2,076,013
		<u>16,651,168</u>	<u>3,007,001</u>	<u>2,127,651</u>	<u>21,785,820</u>
Liabilities					
Derivative financial instruments	17	-	157,751	-	157,751
Other liabilities		-	200,980	-	200,980
		<u>-</u>	<u>358,731</u>	<u>-</u>	<u>358,731</u>
For disclosure purposes					
Investments measured at amortised cost		<u>1,139,941</u>	<u>175,068</u>	<u>-</u>	<u>1,315,009</u>

UNION NATIONAL BANK - Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

23 Fair value measurement (continued)

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

	Notes	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets					
Held for trading investments	10	1,526	-	-	1,526
Financial assets designated at fair value through profit or loss	10	49,148	2,980	-	52,128
Available for sale investments	10	15,586,775	2,055,865	53,795	17,696,435
Derivative financial instruments	17	-	203,820	-	203,820
Other assets		-	188,140	-	188,140
Investment properties		-	-	2,040,269	2,040,269
		<u>15,637,449</u>	<u>2,450,805</u>	<u>2,094,064</u>	<u>20,182,318</u>
Liabilities					
Derivative financial instruments	17	-	147,252	-	147,252
Other liabilities		-	188,140	-	188,140
		<u>-</u>	<u>335,392</u>	<u>-</u>	<u>335,392</u>
For disclosure purposes					
Held to maturity investments		<u>3,300,745</u>	<u>30,453</u>	<u>-</u>	<u>3,331,198</u>

During the period ended 30 September 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 (31 December 2017: Nil). Movement of financial assets measured based on the Level 3 hierarchy is as follows:

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Opening balance	2,094,064	2,086,554
Additions	58,618	40,116
Settlement/sale	(3,067)	(5,500)
Transfer	(21,956)	
Net loss on fair valuation	-	(27,188)
Exchange differences	(8)	82
	<u>2,127,651</u>	<u>2,094,064</u>

The fair value of the Group's assets and liabilities is not materially different from the carrying value at 30 September 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 held to maturity investments are disclosed above.

UNION NATIONAL BANK - Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2018 (continued)

24 Impairment allowance

The movements in impairment allowance during the period/year are as follows:

	30 September 2018	31 December 2017		
	Impairment allowance AED'000 (unaudited)	Specific impairment allowance AED'000 (audited)	Collective impairment allowance AED'000 (audited)	Total impairment allowance AED'000 (audited)
At 1 January (as per IAS 39)	3,121,576	1,354,461	1,524,958	2,879,419
Effect of change in accounting policy for IFRS 9	896,404	-	-	-
At 1 January (restated as per IFRS 9)	4,017,980	1,354,461	1,524,958	2,879,419
Charge for the period/year (net of write backs)	534,456	1,059,189	(73,034)	986,155
Amounts written off / transferred	(943,385)	(743,107)	(4,115)	(747,222)
Foreign currency translation	210	2,176	1,048	3,224
	3,609,261	1,672,719	1,448,857	3,121,576

The table below shows allocation of impairment allowance:

	30 September 2018	31 December 2017		
	Impairment allowance AED'000 (unaudited)	Specific impairment allowance AED'000 (audited)	Collective impairment allowance AED'000 (audited)	Total impairment allowance AED'000 (audited)
Cash and balances with central banks	1,171	-	-	-
Due from banks	598	104	-	104
Loans and advances measured at amortised cost	3,541,776	1,661,797	1,448,857	3,110,654
Investment securities at amortised cost	8,657	-	-	-
Other assets	1,237	-	-	-
Letter of credit, financial guarantees and undrawn loan commitments	55,822	10,818	-	10,818
	3,609,261	1,672,719	1,448,857	3,121,576