بنك الاتحاد الوطني
UNION NATIONAL BANK

ANNUAL REPORT
2017

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

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

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

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

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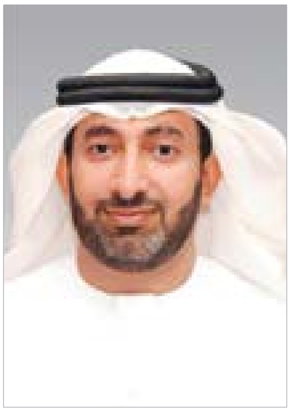
BOARD OF DIRECTORS

H.H. Sheikh Nahayan Mabarak Al Nahayan
CHAIRMAN

H.E. Mohamed Bin Dhaen Al Hamli
VICE CHAIRMAN



Mr. Khalifa Sultan Al Suwaidi
DIRECTOR

Mr. Rashid Darwish Al Ketbi
DIRECTOR

H.E. Mattar Mohamed Al Tayer
DIRECTOR

Mr. Yousef Abdelaziz Al Harmoudi
DIRECTOR

Mr. Abdul Wahid Al Fahim
DIRECTOR

Mr. Ahmed Jassim Al Zaabi
DIRECTOR

UNB NETWORK

BRANCHES

ABU DHABI		FAX NO.
1	Salam	02-6795806
2	Corniche	02-6210671
3	Khalidiya	02-6352588
4	ADGAS	02-6272062
5	City Center	02-6656691
6	Airport Road	02-6226310
7	Najda	02-6349616
8	Al Reem	02-6738720
9	Al Wahda	02-4438229
10	Mina	02-6799552
11	Khalifa Part	02-4492427
12	Murshrif	02-5576571
13	Mussafah	02-5547565
14	ADNOC	02-6796206
15	Hazzaa	02-6412416
16	Shahama	02-5633133
17	Mussafah Industrial Area	02-5551507
18	Muroor	02-4449986
19	Sheikh Khalifa City A	02-5567738
20	Zayed University	02-5577654
21	Defence Road	02-4439129
22	Al Dhafra	02-8847633
23	Habshan	02-8831199
24	Baniyas	02-5822580
25	Asab	02-8860052
26	Mohammed Bin Zayed	02-5528402
27	Bein Al Jisrain	02-6811850
28	Al Ruwais	02-8762686
29	Yas Mall	02-5650332

AL AIN		FAX NO.
1	Khalifa Street	03-7658988
2	Al Hili	03-7626203
3	UAE University	03-7676223
4	Al Yahar	03-7814629
5	Al Jebel Roundabout	03-7551199
6	Al Ain Mall	03-7511171
7	Bawadi Mall	03-7840516

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

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

	SHARJAH & NORTHERN EMIRATES	FAX NO.
1	Sharjah	06-5684097
2	Fujairah	09-2224851
3	Ras Al Khaimah	07-2286500
4	Ajman	06-7439385
5	Dibba	09-2440144
6	Al Buhaira	06-5735137
7	Khorfakkan	09-2371413
8	Kalba	09-2775400
9	Al Ta'awon	06-5304929
10	Umm Al Quwain	06-7649001
11	Al Arooba	06-5758845
12	Al Dhaid	06-8822845
13	Al Rumaila	06-7413689
14	Al Qasim	07-2338837
15	Al Jurf	06-7463368
16	Sharjah Industrial	06-5429089

To get in touch with us call :

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

OVERSEAS BRANCHES AND REPRESENTATIVE OFFICE

	REGIONAL BRANCHES	TEL NO.	FAX NO.
1	UNB-Qatar, Qatar Financial Centre	(+974) - 44069700	(+974) - 44838210
2	UNB-Kuwait	(+965) - 22950500	(+965) - 22950501
3	UNB-China, Shanghai Branch	(+82) – 2180226688	(+82) - 2168806889

	SHANGHAI-CHINA REPRESENTATIVE OFFICE	TEL NO.	FAX NO.
1	UNB-China, Shanghai Representative Office	(+8621) - 68805533	(+8621) - 68806889

SUBSIDIARIES

UNION BROKERAGE LLC (UBC)

	BRANCHES	TEL NO.	FAX NO.
1	Main office – Abu Dhabi	02-6172100	02-6315702
2	ADX office	02-6128824	02-6277478
3	DFM office	04-6172191	04-3315212

AL WIFAQ FINANCE COMPANY

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

AL WIFAQ PROPERTIES LLC

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

UNION NATIONAL BANK - EGYPT

	BRANCHES	TEL NO.		BRANCHES	TEL NO.
1	Head Office	0233011300	23	Saad Zaghloul	0304812469
2	Talaat Harb	0223926021	24	Saraya	0303582911
3	Nasr City	0224019606	25	Semouha	0304281868
4	Haram	0237804871	26	Lagoon	0303854219
5	Heliopolis	0222560350	27	Port Said	0663200587
6	Al-Hegaz	0221809016	28	Suez	0623343576
7	Obour	0244828290	29	Ismailia	0643911730
8	Mokattam	0225040312	30	Damietta	0572324911
9	Soubra	0225764004	31	Sharm El- Sheikh	0693666623
10	Mohandeseen – Mohie El-Din Abou El-Ezz st.	0237497218	32	Hurghada	0653453140
11	Mohandeseen – Gamaet Al-Dowal	0233474242	33	Mansoura	0502202699
12	5th Settlement	0225371191	34	Zagazig	0552335591
13	10th of Ramadan	0554356178	35	Tanta	0403598411
14	6th of October	0238301051	36	Kafr El- Sheikh	0473230435
15	Strip Mall - Sheikh Zayed	0238579220	37	El – Mahala	0402253497
16	Maadi - Kornish	0225282608	38	Damnhour	0453370261
17	Maadi	0223104245	39	Shbeen El – Koum	0482333029
18	Maadi - Laselky	0229703700	40	Benha	0133255604
19	Madinaty	0201149449992	41	Assuit	0882284661
20	Zamalik	0227377390	42	Suhag	0932314453
21	El – Horya	0303912900	43	Menia	0862339008
22	Gleem	0305829175	44	Safwa Mall – Sheikh Zayed	0238860451

CHAIRMAN'S REPORT

Chairman's Report

On behalf of the Board of Directors, I am pleased to present to you the 2017 consolidated financial statements for the Union National Bank (UNB) Group. During 2017, the UNB Group continued to further build on its financial strengths and invest in its franchise in keeping with its Vision 'To be the best in class for the banking industry in the UAE'.

Amongst the many significant achievements of the UNB Group in 2017, particularly notable is that UNB was ranked among the Top 10 Safest Banks in the Middle East and the 50 Safest Banks in the Emerging Markets by Global Finance. Also, UNB became the first bank from the UAE to establish a commercial branch in the People's Republic of China to provide support to our customers in the growing UAE-China trade corridor.

Global Economy

The global economy outlook has been improving supported by better than expected growth in some of the major economies. The key drivers for growth being improving labour market, relatively lower inflation, resilient global demand and accommodative monetary policies by the central banks. Growth prospects remain positive for 2018 as global economy continues to be underpinned from the emerging uptrend. The improvements are expected to be broad-based and extend to both developed and emerging economies.

Gulf Cooperation Council (GCC) and the UAE

The GCC economies witnessed slower economic growth due to lower oil production in 2017 while the non-oil growth improved on the back of improved global conditions and fiscal reforms. GCC countries have been undertaking various reforms to increase government revenues and rationalize the revenue and capital expenditure to reduce their fiscal deficits. Introduction of VAT, excise tax and rationalization of government subsidies are some of the measures being taken to reduce the fiscal deficit and diversify the revenue base.

Despite the global and regional headwinds, the UAE economy has been performing reasonably well in 2017, driven by its well diversified economic base and lesser reliance on hydrocarbon sector. The economic growth is expected to improve in 2018 due to the country's significant diversification initiatives into tourism, trade, financial services and increase in infrastructure spending in preparation of Dubai EXPO 2020. The UAE, along with Saudi Arabia, implemented VAT from 1st January 2018 which should further bolster the Government revenues and help strengthen the local economy.

The UAE banking industry continued to be well regulated and supervised with adequate capital and liquidity and satisfactory asset quality metrics.

UNB Group

The UNB Group reported a net profit for fiscal 2017 of AED 1,657 million, an increase of 5% compared to the preceding year. The operating profit of AED 2,496 million registered a growth of 6% compared to the previous year.

The higher operating profit in 2017 was led by an increase in operating income by 4% at AED 3,631 million. This increase was largely driven by a robust growth in non-interest income. The net interest income and net income from Islamic financing at AED 2,647 million for the year ended 31 December 2017, increased by 1% over prior year due to higher average loan book partly offset by a reduction in net interest margin. The net interest margin for 2017 was lower by 8 bps at 2.57%, impacted by higher cost of deposits in 2017 as compared to the prior year.

The non-interest income increased by 15% in 2017 to AED 984 million due to an increase in fees and commission income driven mainly by higher business volumes in Retail Banking business and gains on dealing in foreign currencies and derivatives. The Group recognized fair value loss on investment properties of AED 27 million in 2017 which partly offset the increase mentioned earlier.

The consolidated assets of the Group as at 31 December 2017 were AED 107.5 billion, higher by 3% compared to the prior year-end. The loans and advances declined by 4% in 2017 to AED 71.1 billion as at 31 December 2017 due to some corporate loan repayments and overall softer credit demand. The Investments portfolio of the Group increased by 34% to AED 21.1 billion as at 31 December 2017, in order to enhance the overall balance sheet returns and also to optimally position the Bank to meet with the liquidity guidelines issued by the Central Bank of UAE.

The customers' deposits increased by 2% during 2017 and were at AED 78.7 billion at the year-end. In the first quarter of the year, the Bank successfully issued US$ 300 million of 5-year bonds on a private placement basis under its Euro Medium Term Note program. The liquidity position of the Group remained strong, with the credit to deposit ratio being 90.4% as at 31 December 2017. The liquid assets including investments constituted 29.8% of the total assets as at 31 December 2017. The advances to stable resources ratio calculated as per the Central Bank of the UAE guidelines was circa 80% as at 31 December 2017, well within the regulatory norms of 100%. The Bank, also comfortably met other regulatory liquidity requirements, like the Eligible Liquid Assets ratio and the Liquidity Coverage ratio.

The ratio of non-performing loans to gross loans and advances was at 4.3% (31 December 2016: 3.4%) with the loan loss coverage of 97.1% as at 31 December 2017 (31 December 2016: 108.3%). Ahead of regulatory requirements, the Group maintained general provision representing 1.54% of the credit risk weighted assets at the year-end.

Effective cost management led to 2017 operating expenses of AED 1,135 million being at similar levels as in 2016. In keeping with its corporate social responsibility, the Group in 2017 contributed AED 30 million to Sandooq Al Watan, as UAE marked 2017 as the Year of Giving.

The return on average equity, excluding the Tier I capital notes, was at 9.8% for 2017 (2016: 9.9%) while the return on average assets improved to 1.6% for 2017 (2016: 1.5%).

The capital position remained strong with the Basel II overall capital adequacy ratio and Tier 1 capital adequacy ratio being 20.1% and 19.0% respectively as at the year end. These ratios remain significantly above the minimum requirements set by the Central Bank of the UAE under Basel II of 12% for the overall capital adequacy ratio and 8% for the Tier 1 capital adequacy ratio. The Group is in full compliance with the newly introduced Basel III capital ratios in 2017. The strong capital level has positioned the Group well to transition to IFRS 9: Financial Instruments, when the Group adopts the standard effective 1 January 2018.

Dividend distribution

The Board of Directors is pleased to recommend to the shareholders of the Bank a distribution of cash dividend of 20% (AED 0.20 per share) amounting in aggregate to AED 550 million.

Accolades and recognition

During 2017, the Bank was the recipient of various prestigious industry awards. Listed below are only some of the key recognitions conferred on the Bank during the course of the year.

- Global Finance, the international financial magazine, ranked UNB among the Top 10 Safest Banks in the Middle East and the 50 Safest Banks in the Emerging markets. UNB came 5th in the Middle East and 17th in the Emerging Markets for the 2017 edition.
- UNB won the prestigious Mohammad Bin Rashid Al Maktoum Business Award for 2016 in the finance category for the fourth consecutive time.
- UNB became the first organization from the Private Sector and the first Bank to have undertaken the Global Star Rating System for Services. The Bank's Salam branch was rated 4 star.
- UNB CEO received the distinguished "Al Nisr Al Arabi" (Arab Eagle) Award for UNB's great achievements in the world of Banking and Finance from the Arab Organization for social responsibility and Tatweej Academy for Excellence and Quality in the Arab World.
- UNB CEO was honored with the prestigious 'GCC Banker of the Year 2017' while UNB was honored with the 'GCC Retail Bank of the Year 2017', announced in the Autumn 2017 issue of World Finance.
- UNB won four product awards under the categories, Best Customer Deposit Scheme, Best Call Center, Best New SME Product and Best Current Account Product at the 2017 Banker Middle East Product Awards.
- UNB was recognized with the HR Excellence Award at the annual Middle East HR Summit and Expo 2017.

Appreciations

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

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

Nahayan Mabarak Al Nahayan
Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

I am pleased to present the 2017 Review Report for Union National Bank (UNB) Group.

Amid a background of softer economic environment in the region, the UNB Group continued to report satisfactory results. The year saw a continuation of the Group's strategy to pursue growth selectively whilst maintaining adequate liquidity and strong capital base. The focus remained on diversifying the revenue stream by enhancing fee-based business through different products and services and investing for future growth. Noteworthy, was the Group's expansion internationally, with the opening of a commercial branch in Shanghai, People's Republic of China, the first ever from a UAE based bank.

During 2017, the UAE non-oil economy remained resilient with the local economy being further buttressed by oil price stability as oil production cuts mandated by OPEC and non-OPEC countries agreement remain in force. As growth picks up due to improving economic environment, increased diversification, progress in fiscal reforms and growth in infrastructure spend, the Group is well positioned to capitalize on the improving economic outlook. The Group remains committed to enhance the banking experience for the customers through innovative product offerings, superior customer service and service excellence to achieve our vision 'to be the best in class in banking industry in the UAE'.

Financial Review

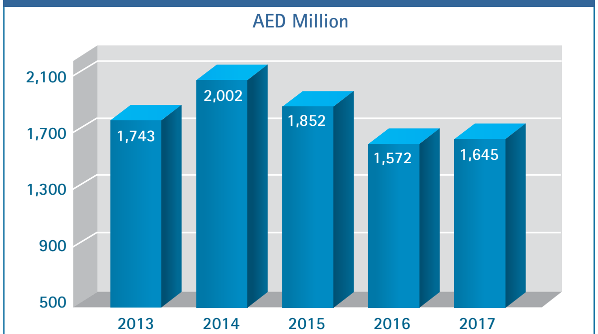
The consistent and prudent business strategy being followed by the UNB Group, led to the profit for the year increasing by 5% in 2017 to AED 1,657 million. The operating profit for 2017 was AED 2,496 million, higher by 6% compared to 2016.

The 2017 operating income was higher by 4% at AED 3,631 million, driven by an increase in both net interest income and net income from Islamic financing and non-interest income, which were up by 1% and 15% respectively over the preceding year. The net interest income and net income from Islamic financing for 2017 grew modestly by 1% to AED 2,647 million at the back of growth in the average loan book partly offset by a reduction in net interest margin. An increase in funding cost for the year 2017 as compared to the prior year, resulted in the net interest margin decreasing in 2017 by 8 bps to 2.57%.

The non-interest income grew strongly by 15% in 2017 and was AED 984 million for the year. The increase in non-interest income during the year was led by an increase in fees and commission income driven by higher business volumes and higher foreign exchange and derivatives related income. The Group recognized fair value loss on investment properties of AED 27 million in 2017 as compared to gain of AED 28 million recognized in previous year, partly offsetting the reported increase in the non-interest income during the year.

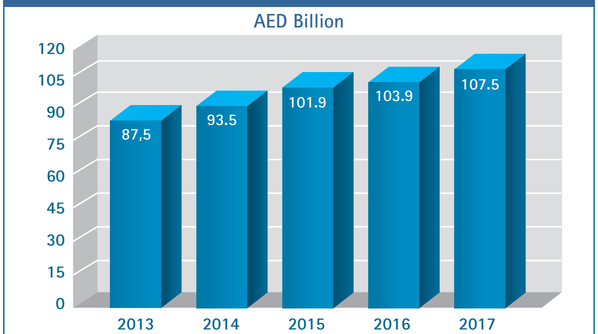
Net loans and advances were AED 71.1 billion as at 31 December 2017, lower by 4% due to certain loan repayments by corporate customers and softer credit demand. As discussed later in the Report, consumer banking registered healthy loan growth during the year. Sound liquidity management principles were steadily followed throughout the year, with the Bank comfortably complying with the regulatory requirements for Advances to Stable Resources ratio and the Eligible Liquid Assets ratio, as set by the Central Bank of the UAE. In keeping with the strategy to actively manage the balance sheet and enhance returns, the investments portfolio increased by 34% to AED 21.1 billion as at the year-end. Customers' deposits increased slightly by 2% in 2017 and was AED 78.7 billion as at 31 December 2017. As part of its funding strategy to continue to diversify its funding source and mix, the Bank, in the first half of the year raised medium term funding of US$ 300 million under the Bank's established Euro Medium Term Note program of US$ 3.0 billion. The total assets of the UNB Group increased by 3% in 2017 to AED 107.5 billion as at 31 December 2017.

Profit*



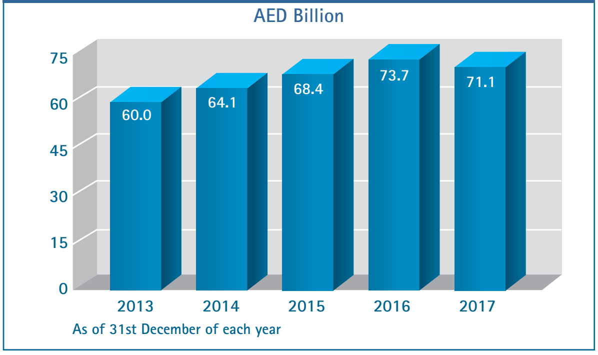
* Profit attributable to Equity holders of the Bank

Total Assets

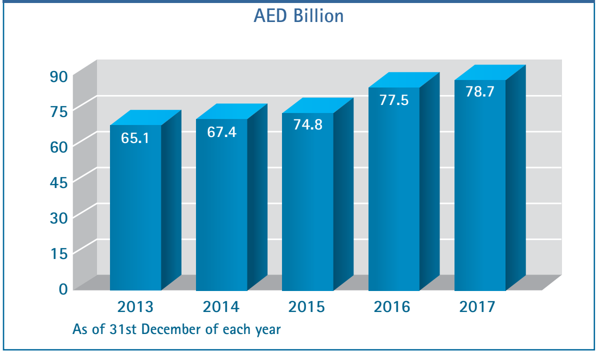


As of 31st December of each year

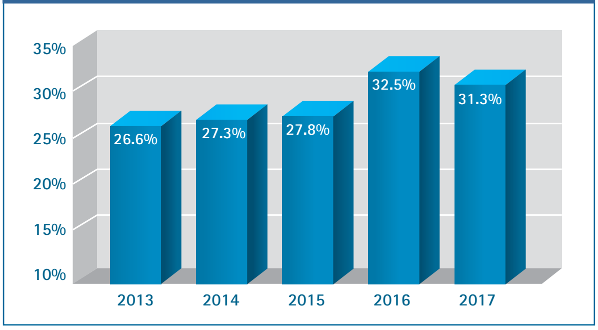
Loans and Advances



Customers' Deposits



Cost to Income Ratio



Operating expenses during the year were strictly managed and over 2016 were largely unchanged at AED 1,135 million. As the UAE marked 2017 as the Year of Giving, I am pleased to report that the Bank, as a socially responsible corporate entity contributed AED 30 million to Sandooq Al Watan.

Over the years, the Group has continued to invest in its human capital as also enhance its distribution network, infrastructure and technological capabilities. Focus to prudently manage costs has ensured that the Group's operations remain efficient; cost to income ratio for 2017 was 31.3% and remains amongst the best locally.

As at the year-end, the ratio of non-performing loans and advances to gross loans and advances was 4.3% with loan loss coverage of 97.1%. With a view to ensure that adequate credit related provisions are maintained, additional impairment charge was recognized during the fourth quarter of the year. This along with the provisions taken earlier during the year led to full year impairment charge increasing by 13% in 2017 to AED 794 million. As per the requirements, general provisions are maintained, with the total of such general provisions being 1.54% of the overall credit risk weighted assets at the year-end. These provisions remain ahead of the stipulated requirements.

For the fiscal 2017, the return on average equity, excluding Tier 1 capital notes was 9.8% (2016: 9.9%) and the return on average assets was 1.6% (2016: 1.5%). The basic and diluted earnings per share for the year was AED 0.57 (2016: AED 0.55), higher by 4% over 2016.

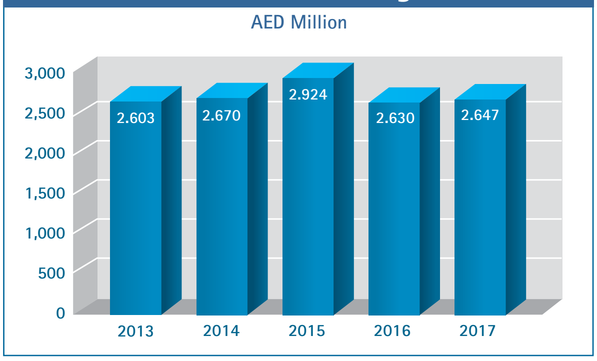
The Group's strong capital position further improved led by an increase in the regulatory capital base and reduction in risk weighted assets. As at 31 December 2017, the Basel III capital adequacy ratio for the UNB Group computed in accordance with the Central Bank of the UAE guidelines was 19.4% with the Tier I capital adequacy ratio being 18.3%. These ratios have been computed after considering the distribution of the proposed cash dividend mentioned in the ensuing part of this Report. The Group is well prepared and positioned for the mandatory adoption of IFRS 9: Financial Instruments, which for the Group would be applicable effective 1st January 2018.

The Board of Directors has recommended a cash dividend of 20% (AED 0.20 per share) of the paid-up share capital of the Bank subject to necessary approvals. Following the distribution, the dividend payout ratio for 2017 would be circa 33% (2016: circa 35%).

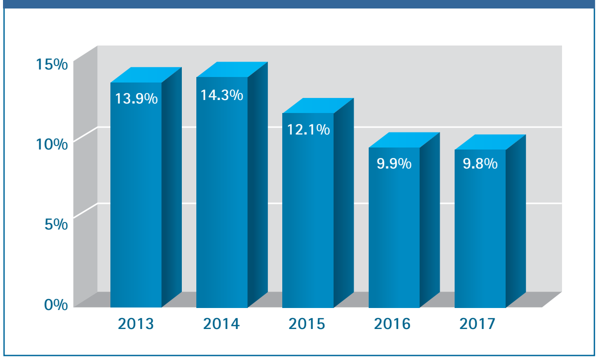
Corporate Banking

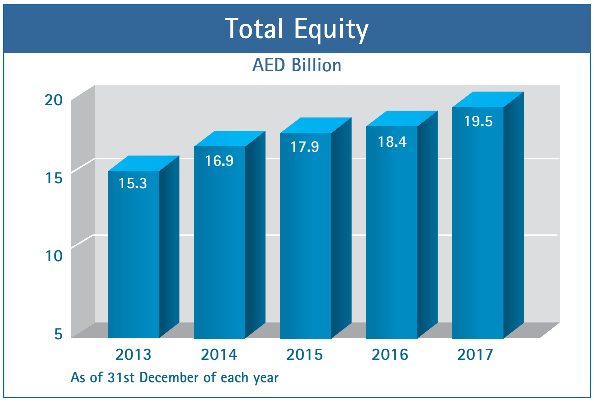
Corporate banking, a key segment for the UNB Group, contributed 36% of the UNB Group's profit in 2017. The operating income for the Corporate banking segment at AED 1,134 million increased by 6% over preceding year due to higher net interest income driven by an increase in average loan book as compared

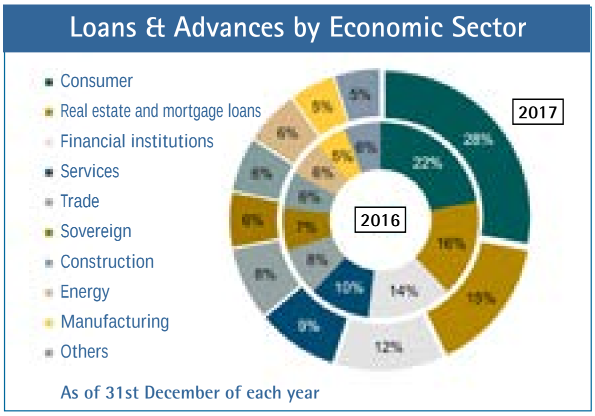
Net Interest Income & Income from Islamic Financing



Return on Average Equity







to previous year. Segmental assets decreased by 4% in 2017 and were AED 38.1 billion as at the year-end. Correspondingly, there was reduction in the segmental liabilities by 6% in 2017 and were AED 32.6 billion at the year-end.

The business focus continues to be on prudent risk management, enhanced customer service and increasing the customer base on a selective basis. The automation of the credit initiation process and introduction of improved risk assessment tools were important initiatives undertaken for this purpose in 2017. This was further supported by enhancing the repertoire of automated cash management products to continue facilitating banking operations for the clients.

Consumer Banking

Consumer banking, another key segment of the UNB Group was the second highest profit contributor, reporting segmental profit of AED 367 million, comprising 22% of the overall profit for the UNB Group in 2017. Operating income for Consumer banking was at AED 1,405 million in 2017, an increase of 6% led by an increase in non-interest income supported by higher business volumes. The net interest income decreased slightly on account of higher cost of funds and lower revenues from SME related business. The Consumer banking assets registered a healthy growth of 14% in 2017 to AED 20.1 billion as at 31 December 2017, while segmental liabilities were lower by 7% during the year.

In 2017, Consumer banking continued to grow steadily. Higher loan growth along with a focus on wealth management products resulted in higher fees and commission income. Additionally, series of liability related campaigns were launched to further augment the product offerings. During the year Consumer banking implemented a dedicated Mortgage Centre and a focused Auto Centre, both with the intention of providing an enhanced customer experience.

On the Cards front the focus was on enriching customer value and offer customers best-in-class solutions. UNB Vantage Card was launched with a unique blend of multi-branded offerings through strategic partnerships with various discounts and offers being made available to the customers.

In line with customer preferences, the mobile banking application was enhanced to include wide range of additional features. Also, the Online banking platform was further enhanced and the numbers of ATMs located across the UAE increased to 300.

In 2017, UNB became the first organization from the private sector and the first Bank to receive the Global Star Rating System with Salam branch being awarded a 4 Star Rating.

Private banking and Wealth management expanded its market share by growing the existing clientele portfolio across the UAE and MENA Region. Awards conferred included being the recipient of the "Shariah Compliant Fund Manager of the year 2017" by Global Investor Group at 2017 MENA Capital Market Summit and Awards 2017.

Islamic Banking

In 2017, excluding the fair value change on investment property, the segmental operating income increased by 21% mainly due to higher fee income on account of increased business volumes and higher rental income. The segmental profit for the year was AED 179 million, up by 4% over the previous year. The segmental profit excluding the item mentioned above increased by 42% as compared to the previous year. The Islamic banking assets grew by 16% in 2017 to AED 9.4 billion as at 31 December 2017.

Islamic banking continued to offer end to end product offerings through a wide range of Sharia compliant Islamic financing products and services to meet customer requirements. Also, Islamic banking supported development of various UAE based projects and related businesses through strategic relations with reputed business players in the market during the year.

Treasury and Investment Banking

The operating income for the segment, decreased by 5% in 2017 over the preceding year. The operating profit in 2017 was lower by 6% at AED 282 million mainly due to lower net interest income by 5% on account of increased funding cost and lower net investment income on account of lower realized gain on sale of investments. This was partly offset by an increase in other operating income due to gains on foreign currencies & derivatives. The segmental assets increased by 4% to AED 33.6 billion as at 31 December 2017. The Investments portfolio of the Group increased by 34% to AED 21.1 billion as at 31 December 2017, in order to enhance the overall balance sheet returns and also to comply with the liquidity guidelines issued by the Central Bank of UAE. Segmental liabilities were higher by 15% and were AED 31.4 billion as at 31 December 2017.

During the year, the Bank participated in twelve new syndicated loans spread over six different jurisdictions acting as mandated lead arranger in many of these transactions. The Bank also acted as the facility and/or security agent in various other deals. Additionally, the Bank participated in several landmark bilateral deals and was active in the secondary market as also risk participated in trade related unfunded transactions globally and regionally.

Systems and Improvements

The focus continued to strengthen the IT infrastructure to cater to growing business demands, introduce new technologies / applications to facilitate delightful customer experience and ensure an effective security setup to create and sustain an eco-system to vigilantly protect information and data assets. In line with the above, the Group implemented many strategic and business critical systems / applications successfully.

During the year, UNB acquired and successfully implemented an enterprise wide Value Added Tax system covering the Bank and all its subsidiaries based in the UAE. The Group ensured that all necessary regulatory upgrades for systems and applications such as SWIFT, Direct Debit System, Wage Protection System, UAE Fund Transfer System, Al Etihad Credit Bureau, Emirates ID Authority, Ci-Net and ATM were completed within stipulated timelines.

UNB successfully obtained recertification of ISO service management system (SMS) 20000 in recognition of adopting Information Technology Infrastructure Library (ITIL) 2011 framework for IT service management and Payment Card Industry Data Security Standard (PCI DSS) compliance certification.

Ratings

The Bank has consistent ratings from all the rating agencies that rate the Bank with the outlook being "Stable".
The ratings as at the end of 2017 were:

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

Recognition and Corporate Social Responsibility

The Bank has continued to be widely recognized by industry leading bodies and associations, both internationally and locally. Listed below are some of the key accolades and awards conferred on the Bank during 2017:

Global Finance, the international financial magazine, has ranked UNB among the Top 10 Safest Banks in the Middle East and the 50 Safest Banks in the Emerging markets. UNB came 5th in the Middle East and 17th in the Emerging Markets for the 2017 edition.

UNB won the prestigious Mohammad Bin Rashid Al Maktoum Business Award for 2016 in the finance category for the fourth consecutive time.

UNB CEO was honored with the prestigious ‘GCC Banker of the Year 2017’ while UNB was honored with the ‘GCC Retail Bank of the Year 2017’ by World Finance magazine.

UNB CEO received the distinguished “Al Nisr Al Arabi” (Arab Eagle) Award for UNB’s great achievements in the world of Banking and Finance from the Arab Organization for social responsibility and Tatweej Academy for Excellence and Quality in the Arab World.

UNB CEO and Al Wifaq Finance Company Managing Director was conferred with the ‘Islamic Banker of the Year’ Award while Al Wifaq Finance Company (Bank’s majority owned subsidiary) was honoured with the “Most Innovative Islamic Finance Solutions Award” at the World Finance Islamic Banking Awards announced in the Spring 2017 issue of World finance.

UNB became the first organization from the Private Sector and the first Bank to have undertaken the Global Star Rating

System for Services. The Bank’s Salam branch was rated 4 star, thereby becoming the first organization from the private sector to achieve this recognition.

UNB was awarded the “Shariah Compliant Fund Manager of the year 2017” by Global Investor Group at the 2017 MENA Capital Markets Summit and Awards 2017.

UNB was recognized with the HR Excellence Award at the annual Middle East HR Summit and Expo 2017.

UNB won the GCC Best Employer Brand Award for the fourth consecutive year. In addition, UNB also won the HR Leadership Award for the first time.

Union National Bank won the acclaimed Super brand award 2017. This is the 7th consecutive year that UNB has achieved this distinction.

UNB won eight Stevie Awards under the various categories including the ‘People’s Choice Stevie Awards for Favourite

Companies'; Company of the year - Financial Services large - Gold; Human Resource Department of the year - Gold; Executive of the year - Silver; Human Resource Executive of the year - Silver; Customer Service team of the year - Silver; Health, Safety and Environment Program of the year - Silver and Product development/management team of the year - Bronze.

UNB won the "Business Excellence" Award at the BIZZ Americas 2017 held in US Virgin Island.

UNB won four product awards under the categories, Best Customer Deposit Scheme, Best Call Center, Best New SME Product and Best Current Account Product at the 2017 Banker Middle East Product Awards.

UNB won the Quality Achievements Award 2017 in the Diamond Category presented by the European Society for Quality Research in recognition of its outstanding commitment, support and efforts to endorse and improve achievements in Quality Management.

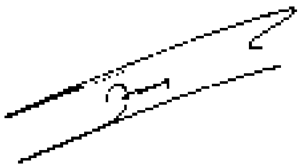
UNB received the Dubai Chamber CSR Label 2016. This is the 2nd consecutive year that UNB has achieved this distinction.

UNB won the Swiss International Quality Standard Award from the Europe Business Assembly. In addition, the Bank's CEO received the Swiss International Quality Certificate as recognition of UNB's innovative initiatives towards the improvement and advancement of quality developments.

UNB has continued to consistently support Corporate Social Responsibility initiatives across various categories including in the areas of education, health and general betterment of the society. Several workplace related initiatives were also undertaken to drive employee awareness and participation, ensuring that employees play a crucial role as a responsible citizen in the society.

Conclusion

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



Mohammad Nasr Abdeen
Chief Executive Officer

CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2017

Introduction

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

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

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

The Bank's governance standards adopt international best practices and the governance operations are compliant with the applicable provisions of the Union Law 10 of 1980, Federal Law 2 of 2015 and the extant regulations of the Central Bank of the UAE, as well as regulatory requirements in other operating jurisdictions.

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

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

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

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

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

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

The Bank has earned the appreciation and won accolades from the Abu Dhabi Security Exchange and Al Etihad Credit Bureau for adopting excellent external compliance program in providing financial disclosures and customers' credit information respectively.

Board composition and election

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

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

As at the end of December 2017, UNB's Board comprised of eight members, of whom, seven members were elected by the shareholders in the annual general meeting held on February 29, 2016 for a three year team up to 2018 and one member was appointed effective April 10, 2016 up-to the tenure of the existing board, in accordance with the approvals in the above mentioned annual general meeting.

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

Directors' independence disclosure

In the Board's composition, seven members represent the strategic investors (viz. five representing the Abu Dhabi Investment Council and two representing the Investment Corporation of Dubai).

All the directors are non-executive and six are independent.

CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2017

While determining independence principle, the directors nominated by the strategic shareholders but otherwise conform to the independence criteria stipulated by the Security Commodity Authority in their individual capacity, have been reckoned as independent.

Board meetings

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

Director's fee

The Bank adopts fixed compensation policy for the board members.

As per the provision of the Articles of Association, the Directors' remuneration, after providing for legal reserve and setting aside 5 % as first share of profit to the shareholders, should not exceed 10 % of remaining net profit. For the fiscal year 2017, the remuneration for each director is proposed to be AED 600,000/- (Fiscal 2016: Director's remuneration was AED 600,000/- for each director).

The Board Committees

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

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

Audit Committee

The Audit Committee consists of three members. All the members of the Committee are non-executive and independent.

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

Remedial Asset Committee

The Remedial Asset Committee consists of three Board members; all the members are non–executive and independent.

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

Board Nomination & Remuneration Committee

The Board Nomination & Remuneration Committee consists of two Board members as per constitution and charter. With the resignation of one of the members in 2017, the single independent member performs the responsibilities of the committee. The committee is under re-constitution.

The committee shall assist the Board on matters related to the composition of the Board, performance assessment and succession planning for individual directors and senior management and their remuneration policy.

Board Risk Committee

The Board Risk Committee consists of three Board members; all the members are non–executive with two members being independent.

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

Board Credit Committee

The Board Credit Committee consists of four Board members; all the members are non–executive with three members being independent.

The Committee assists the Board in fulfilling its credit approval responsibility in accordance with the delegated authority.

Governance performance

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

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

Performance Assessment

Board carried out its performance self-assessment for the fiscal 2017 in accordance with the framework outlined in the corporate standards manual of the Bank. Based on the assessment the Board of Directors opine that its overall activities and oversight are proportionate to the risk complexities of the Bank's business and reasonable to take care of the stakeholders' interest.

CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2017

Insider trading restriction

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

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

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

During the fiscal 2017 the Bank was fully compliant to Security Commodity Authority rules and regulations.

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

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

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

Management committees chaired by the CEO are:

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

Internal Control Framework

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

Further during 2017 the Bank also carried out stress testing exercise on the Bank's static balance sheet position as at the end of 2016 in accordance with the assumptions and guidelines stipulated by the Central Bank. The results derived from assessment indicate that Bank's loss absorption capacity and solvency strength remains intact and the stress-scenario-capital-adequacy-ratio remains well above the CBUAE defined hurdle rate.

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

Fraud risks & Cyber Security

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

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

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

During the year the Bank has also performed effectiveness-testing and independent assessment of the cyber security controls by engaging independent external consultants.

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

During the fiscal 2017 the Bank did not encounter any material fraud risk incidents or cyber security breaches

Business Continuity

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

Customer care

The Bank practices fair customer care policy and adopts balanced approach to protect customers' interest and preserve the Bank's reputation. As at the end of fiscal 2017, material customer disputes and/or complaints were nil.

CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2017

Accountability

During the fiscal 2017, the Board, the CEO and the Senior Management provided a balanced and true assessment of Bank's position and its prospects to all the stakeholders and ensured that any and all material information were promptly disclosed to the market in a fair and accurate way.

Statutory Auditors

M/s Deloitte & Touche (M.E.) were re-appointed as the Statutory Auditors for the year 2017 by the shareholders in the Annual General Meeting held on 08 March 2017. The appointment of the statutory auditors was in accordance with the provisions of Articles of Association and in conformance with the Statutory Auditors Appointment Rules (SAAR) promulgated by the Abu Dhabi Accountability Authority. The SAAR stipulates that the same Statutory Auditors cannot be appointed for a period exceeding four consecutive years with a cooling period of at least four years before the same firm can be appointed as the Statutory Auditors.

During 2017, the external auditors provided consultancy services for impact assessment and implementation of value-added-tax (VAT) compliance framework. They however, did not provide any other material consultative or administrative service to the Bank during the year that would conflict with the independence principle.

Major shareholders of UNB

The shareholders holding more than five percent of the share capital of the Bank as at the end of 31 December 2017 are provided below:

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

Conclusion

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

Nahayan Mabarak Al Nahayan

Chairman

CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2017

Annexure

Dividend Distribution	2017	2016	2015	2014	2013
Cash Dividend	20%	20%	20%	25%	15%
Stock Dividend	-	-	-	-	5%

Details on UNB's share price as at the end of 31 Dec 2017

	Current market price	Book value	Price to Book value	Earnings per share (EPS)	Price to Earnings (PE)	Dividend yield
UNB Share price details (face value AED 1 per share)	3.80	6.29	0.60	0.57	6.67	5.26

Board of Directors details – 2017

Sl. No.	Name of the Board Member	Representative of	Position in the Board	Membership capacity in the Board viz. Independent (IND) / Non-Executive (NEX)	Membership in Board committees				
					Audit Committee	Remedial Asset Committee	Risk Committee	Credit Committee	Nomination & Remuneration Committee
1	H.H. Sheikh Nahayan Mabarak Al Nahayan	Abu Dhabi Investment Council	Chairman	NEX	-	-	-	-	-
2	H.E. Mohamed Bin Dhaen Al Hamli	Abu Dhabi Investment Council	Vice Chairman	NEX & IND	-	Chairman	-	Chairman	-
3	H.E. Mattar Mohamed Ahmed Al Tayer	Investment Corporation of Dubai	Member	NEX & IND	Member	Member	-	-	-
4	Mr. Rashed Darwish Ahmed Saif Al Ketbi	Minority shareholders	Member	NEX	-	-	Member	Member	-
5	Mr. Khalifa Sultan Ahmed Sultan Al Suwaidi	Abu Dhabi Investment Council	Member	NEX & IND	Chairman	-	Chairman	Member	-
6	Mr. Yousef Abdul Aziz Ahmed Abdulla Al Harmoodi	Abu Dhabi Investment Council	Member	NEX & IND	-	Member	-	Member	-
7	Mr. Abdulwahed Mohd Sharif Asad Al Fahim	Investment Corporation of Dubai	Member	NEX & IND	-	-	-	-	Member
8	Mr. Ahmed Jasim Al Zaabi	Abu Dhabi Investment Council	Member	NEX & IND	Member	-	Member	-	-
9	H.E. Ahmed Saeed Mohamed Al Badi Al Dhaheri (Resigned in April 2017)	Minority shareholders	Member	NEX	-	-	-	-	Chairman

Board meeting attendance - 2017

Number of Board meetings held during 2017 – Four [4]

	1st meeting	2nd meeting	3rd meeting	4th meeting
Meeting Dates	09-Feb-2017	12-Apr-2017	12-Jul-2017	12-Oct-2017

Sl. No.	Name of the Board Member	Position in the Board	Membership capacity in the Board viz. Independent (IND) / Non-Executive (NEX)	Number of meetings held during the tenure of membership	Number of meetings attended
1	H.H. Sheikh Nahayan Mabarak Al Nahayan	Chairman	NEX	4	4
2	H.E. Mohamed Bin Dhaen Al Hamli	Vice Chairman	NEX & IND	4	4 (2 by proxy)
3	H.E. Mattar Mohamed Ahmed Al Tayer	Member	NEX & IND	4	2
4	Mr. Rashed Darwish Ahmed Saif Al Ketbi	Member	NEX	4	3 (1 by proxy)
5	Mr. Khalifa Sultan Ahmed Sultan Al Suwaidi	Member	NEX & IND	4	4
6	Mr. Yousef Abdul Aziz Ahmed Abdulla Al Harmoodi	Member	NEX & IND	4	4 (1 by proxy)
7	Mr. Abdulwahed Mohd Sharif Asad Al Fahim	Member	NEX & IND	4	3
8	Mr. Ahmed Jasim Al Zaabi	Member	NEX & IND	4	4
9	H.E. Ahmed Saeed Mohamed Al Badi Al Dhaheri (Resigned in April 2017)	Member	NEX	2	2

Audit Committee meeting attendance - 2017

Number of Audit Committee meetings held during 2017 – Five [5]

	1st meeting	2nd meeting	3rd meeting	4th meeting	5th meeting
Meeting Dates	09-Feb-2017	18-May2017	12-Jul-2017	12-Oct-2017	28-Nov-2017

Sl. No.	Name of the Board Audit Committee Member	Position	Member capacity Independent (IND)/ Non Executive (NEX)	Number of meetings held during the tenure of Membership	Number of meetings attended
1	Mr. Khalifa Sultan Ahmed Sultan Al Suwaidi	Chairman	NEX & IND	5	5
2	H.E. Mattar Mohamed Ahmed Al Tayer	Member	NEX & IND	5	3
3	Mr. Ahmed Jasim Al Zaabi	Member	NEX & IND	5	4

CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2017

Board Remedial Asset Committee meeting attendance - 2017

Number of Board Remedial Asset Committee meetings held during 2017 – Five [5]

	1st meeting	2nd meeting	3rd meeting
Meeting Dates	23-Mar-2017	06-Jul-2017	08-Oct-2017

Sl. No.	Name of the Board Board Remedial Asset Committee Member	Position	Member capacity Independent (IND)/ Non Executive (NEX)	Number of meetings held during the tenure of Membership	Number of meetings attended
1	H.E. Mohamed Bin Dhaen Al Hamli	Chairman	NEX & IND	3	3
2	H.E. Mattar Mohamed Ahmed Al Tayer	Member	NEX & IND	3	1
3	Mr. Yousef Abdul Aziz Ahmed Abdulla Al Harmoodi	Member	NEX & IND	3	3

Board Risk Committee meeting attendance- 2017

Number of Board Risk Committee meetings held during 2017 –One [1]

	1st meeting
Meeting Dates	09-Aug-2017

Sl. No.	Name of the Board Risk Committee Member	Position	Member capacity Independent (IND)/ Non Executive (NEX)	Number of meetings held during the tenure of Membership	Number of meetings attended
1	Mr. Khalifa Sultan Ahmed Sultan Al Suwaidi	Chairman	NEX & IND	1	1
2	Mr. Rashed Darwish Ahmed Saif Al Ketbi	Member	NEX	1	1
3	Mr. Ahmed Jasim Al Zaabi	Member	NEX & IND	1	1

Board Credit Committee meeting attendance- 2017

Number of Board Credit Committee meetings held during 2017 – Twenty Four [24]

Sl. No.	Name of the Board Credit Committee Member	Position	Member capacity Independent (IND)/ Non Executive (NEX)	Number of meetings held during the tenure of Membership	Number of meetings attended
1	H.E. Mohamed Bin Dhaen Al Hamli	Chairman	NEX & IND	24	21
2	Mr. Rashed Darwish Ahmed Saif Al Ketbi	Member	NEX	24	19
3	Mr. Khalifa Sultan Ahmed Sultan Al Suwaidi	Member	NEX & IND	24	21
4	Mr. Yousef Abdul Aziz Ahmed Abdulla Al Harmoodi	Member	NEX/IND	24	22

CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2017

Board Nomination & Remuneration Committee meeting attendance- 2017

Number of Board Nomination & Remuneration Committee meetings held during 2017 –One [1]

	1st meeting
Meeting Dates	27-Feb-2017

Sl. No.	Name of the Board Nomination & Remuneration Committee Member	Position	Member capacity Independent (IND)/ Non Executive (NEX)	Number of meetings held during the tenure of Membership	Number of meetings attended
1	H.E. Ahmed Saeed Mohamed Al Badi Al Dhaheri (Resigned in April 2017)	Chairman	NEX	1	1
2	Mr. Abdulwahed Mohd Sharif Asad Al Fahim	Member	NEX/IND	1	1

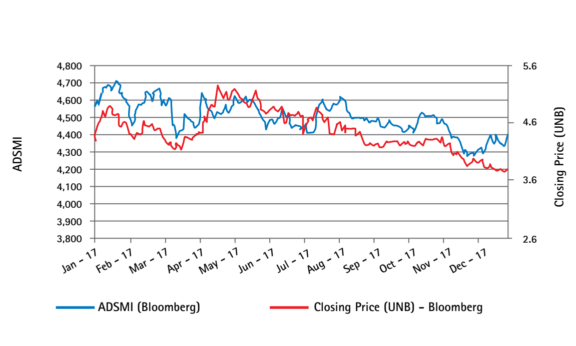
Union National Bank - Share Price Movement Summary (01-Jan-2017 - 31-Dec-2017)

(Share Price in AED)

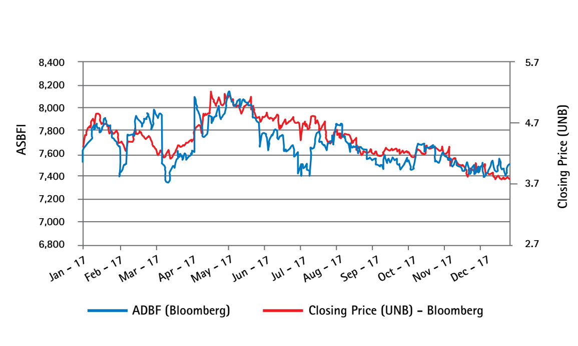
UNB Share Price Summary (as per closing price published by Bloomberg)	
Closing Price (As on 31-Dec-2017)	3.80
Highest Price during the year	5.20
Lowest Price during the year	3.78
Median Price during the year	4.40
Total number of trades during the year	5,208
Total volume trades during the year	236,113,546
Total traded value during the year	AED 1,032,439,144

UNB Share Price Monthly Summary (as per closing price published by Bloomberg)			
Month	Average Price	Highest Price	Lowest Price
Jan	4.63	4.85	4.30
Feb	4.44	4.58	4.25
Mar	4.26	4.38	4.12
Apr	4.80	5.20	4.39
May	4.98	5.15	4.71
Jun	4.76	4.85	4.62
Jul	4.62	4.79	4.38
Aug	4.40	4.58	4.20
Sep	4.23	4.28	4.17
Oct	4.24	4.30	4.17
Nov	4.03	4.26	3.82
Dec	3.83	3.97	3.78

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



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



Deloitte.

INDEPENDENT AUDITOR'S REPORT

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

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Union National Bank PJSC, Abu Dhabi (the "Bank") and its subsidiaries (the "Subsidiaries) collectively referred to as (the "Group") which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

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

Key audit matters

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

Key audit matters	How the matter was addressed in our audit
Impairment allowance for loans and advances	
The appropriateness of loan loss provisions is a key area of judgement for management. The identification of loans that are deteriorating, the assessment of objective evidence of impairment and the determination of recoverable amounts are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and value of collateral. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions. Due to the significance of loans and advances (representing 66% of total assets) and the related estimation uncertainty, we consider this a key audit matter. The portfolios which give rise to the greatest estimation uncertainty are typically those with exposures that are unsecured or are subject to potential cash flow or collateral shortfalls as well as impairments that are derived from collective models. Associated risk management disclosure is complex and dependent on high quality data. It is the judgements for collective provisioning which are the most significant as they are the most sensitive to model adjustment. A key judgement is the assessment of the likelihood of default as there is limited historic data. The Group's individual provisions are also subjective as a result of judgements exercised and the relatively limited amount of data available about future expected cash flows. These loans are individually monitored and the assessment of provisions for these loans involves substantial knowledge of each borrower. The key judgement for individual provisions on these portfolios is the recoverable value of underlying collateral.	We assessed the design and tested the operating effectiveness of the controls over individual and collective impairment calculations including the quality of underlying data and systems. Our approach also included substantive audit procedures. We applied professional judgement in selecting those exposures for our detailed inspection, placing an emphasis on exposures that were potentially more sensitive to developing economic trends. For selected exposures, we tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. For loan loss provisions calculated on a collective basis we tested the underlying models including the appropriateness of the assumptions, accuracy of the inputs and model approval and validation process. . Finally, we assessed whether the disclosures in the financial statements appropriately reflect the Group's exposure to credit risk.

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

Deloitte.

Union National Bank – Public Joint Stock Company

INDEPENDENT AUDITOR'S REPORT

Key audit matters (continued)

Key audit matters	How the matter was addressed in our audit
Valuation of securities and derivatives	
Financial instruments that are measured at fair value are significant for the financial statements of the Group, such as investment securities, trading positions and derivatives (17% of total assets). For financial instruments that are actively traded and for which quoted market prices or market parameters are available, there is high objectivity in the determination of fair values (level 1 instruments). However, when observable market prices or market parameters are not available the fair value is subject to significant estimation uncertainty. The fair value of those financial instruments (level 2 and level 3 financial assets of AED 2,505 million) is determined through the application of valuation techniques which often involves the exercise of judgement by management and the use of assumptions and estimates. The valuation of those instruments is considered a key audit matter due to the related estimation uncertainty.	We assessed the design and tested the operating effectiveness of the Group's key controls supporting the identification, measurement and oversight of valuation risk of financial instruments. We examined the Group's independent price verification processes and approved processes over data feeds and other inputs to valuation and the Group's governance and reporting processes and controls. For samples selected, we compared fair values with observable externally available market data. We determined that we could rely on the key controls operated by the Group for the purposes of our audit.
Valuation of investment property	
The Group carries investment properties at fair value (AED 2,040 million) and its measurement is inherently subjective due to the individual nature and location of each property which considerably influences the expected future rental income. The result of the revaluation is a loss of AED 27.2 million at the end of this reporting period. The valuations are carried out by third party valuers in accordance with the RICS Valuation - Professional Standards and IFRS 13 and take into account, where available, evidence of comparable market transactions.	We assessed the competence, capabilities and objectivity of the third party valuers, verified their qualifications, and discussed the scope of their work. We challenged the valuation methodologies and tested the data inputs underpinning the valuation for a sample of properties. We have also involved our subject matter experts to assess key assumptions used and ensured their accuracy, completeness and reliability. We also compared a sample of the valuations to our expectations and challenged any differences.
Information technology and controls over financial reporting	
The Group is vitally dependent on its information technology infrastructure for the reliability and continuity of its business operations and financial reporting due to the extensive volume and variety of transactions which are processed daily. In 2017, the Group continued to improve the efficiency and effectiveness of its technology infrastructure and the reliability and continuity of the IT processing. Our audit approach relies on automated controls and therefore procedures are designed to test access and control over IT systems, however, we assessed the reliability and continuity of electronic data processing only to the extent necessary within the scope of the audit of the financial statements. Our work consisted of assessing the developments in the IT infrastructure and analysing the impact on the IT organisation.	With the support of our IT auditors, our audit procedures included ▪ Testing IT general controls including system access, system changes management and IT operations; ▪ Assessing the appropriateness of access rights granted to applications which included testing design and operating effectiveness of the Group's automated controls over systems that are relevant to financial reporting including swift messaging ▪ Assessing the control environment relating to selected interfaces, configuration and other application controls; ▪ Examining key controls over computer generated information and report logics; and ▪ Performing journal entry testing as stipulated by the International Standard on Auditing.

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT *(continued)*

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- the consolidated financial statements of the Group have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Group has maintained proper books of account;
- the financial information included in the Chairman's Report is consistent with the Group's books of account;
- note 15 to the consolidated financial statements of the Group discloses purchased or invested in shares during the financial year ended 31 December 2017;
- note 32 to the consolidated financial statements of the Group discloses material related party transactions, the terms under which they were conducted and principles of managing conflict of interests;
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2017 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2017; and
- note 10 to the consolidated financial statements of the Group discloses social contributions made during the financial year ended 31 December 2017.

Further, as required by the UAE Union Law No (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

Deloitte & Touche (M.E.)

Signed by
Mohammad Khamees Al Tah
Registration No. 717
06 February 2018
Abu Dhabi
United Arab Emirates

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2017

	Notes	2017 AED'000	2016 AED'000	2017 USD'000	2016 USD'000
Interest income	4	4,012,860	3,850,523	1,092,529	1,048,332
Interest expense	5	(1,568,079)	(1,412,964)	(426,921)	(384,689)
Net interest income		2,444,781	2,437,559	665,608	663,643
Income from Islamic financing	6	320,973	276,524	87,387	75,286
Depositors share of profit - Islamic financing		(118,987)	(84,286)	(32,395)	(22,947)
Net income from Islamic financing		201,986	192,238	54,992	52,339
Net interest income and net income from Islamic financing		2,646,767	2,629,797	720,600	715,982
Net fee and commission income	7	756,094	668,048	205,852	181,880
Net gain from dealing in foreign currencies and derivatives		104,514	34,334	28,455	9,348
Net investment income		32,281	28,584	8,789	7,782
Net (loss) / gain on investment properties	16	(27,188)	27,996	(7,402)	7,622
Other operating income	8	118,742	98,655	32,328	26,860
Operating income		3,631,210	3,487,414	988,622	949,474
Staff costs	9	(717,033)	(686,492)	(195,217)	(186,902)
Depreciation	18	(72,870)	(76,122)	(19,839)	(20,725)
Other operating expenses	10	(345,332)	(370,569)	(94,019)	(100,890)
Operating expenses		(1,135,235)	(1,133,183)	(309,075)	(308,517)
Operating profit before impairment charges		2,495,975	2,354,231	679,547	640,957
Impairment charge on financial assets, net	11	(793,685)	(702,349)	(216,086)	(191,219)
Profit before income tax		1,702,290	1,651,882	463,461	449,738
Income tax expense	29	(45,084)	(69,303)	(12,274)	(18,868)
Profit for the year		1,657,206	1,582,579	451,187	430,870
Attributable to:					
Equity holders of the Bank		1,644,771	1,572,406	447,801	428,100
Non-controlling interests		12,435	10,173	3,386	2,770
		1,657,206	1,582,579	451,187	430,870
Basic and diluted earnings per share	34	AED 0.57	AED 0.55	USD 0.16	USD 0.15

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

	2017 AED'000	2016 AED'000	2017 USD'000	2016 USD'000
Profit for the year	1,657,206	1,582,579	451,187	430,870
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Available for sale financial assets				
- net change in fair values	57,248	132,226	15,586	35,999
- net amount reclassified to profit or loss on disposal	(6,573)	(30,960)	(1,790)	(8,429)
Fair value changes on cash flow hedges	3,381	8,800	921	2,396
Exchange difference on translation of foreign operations	37,505	(604,648)	10,211	(164,620)
Income tax relating to items that may be reclassified subsequently to profit or loss	(823)	860	(224)	234
	90,738	(493,722)	24,704	(134,420)
Items that will not be reclassified subsequently to profit or loss:				
Actuarial losses on defined benefit liability	(5,922)	(5,637)	(1,612)	(1,534)
Other comprehensive gain / (loss) for the year, net of tax	84,816	(499,359)	23,092	(135,954)
Total comprehensive income for the year	1,742,022	1,083,220	474,279	294,916
Attributable to:				
Equity holders of the Bank	1,728,184	1,089,809	470,511	296,710
Non-controlling interests	13,838	(6,589)	3,768	(1,794)
	1,742,022	1,083,220	474,279	294,916

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

	Notes	2017 AED'000	2016 AED'000	2017 USD'000	2016 USD'000
ASSETS					
Cash and balances with central banks	12	9,196,456	7,916,291	2,503,800	2,155,266
Due from banks	13	1,745,646	2,156,621	475,264	587,155
Loans and advances	14	71,137,305	73,714,400	19,367,630	20,069,262
Investments	15	21,066,609	15,771,321	5,735,532	4,293,853
Investment properties	16	2,040,269	2,029,018	555,478	552,414
Other assets	17	1,951,539	1,971,777	531,320	536,830
Property and equipment	18	298,862	280,701	81,367	76,423
Goodwill	19	81,418	75,465	22,167	20,546
Total assets		107,518,104	103,915,594	29,272,558	28,291,749
LIABILITIES AND EQUITY					
Liabilities					
Customers' deposits	20	78,689,340	77,524,828	21,423,724	21,106,678
Due to banks	21	717,046	505,680	195,221	137,675
Medium term borrowings	22	6,491,225	5,371,256	1,767,282	1,462,362
Other liabilities	23	2,153,994	2,154,676	586,440	586,626
Total liabilities		88,051,605	85,556,440	23,972,667	23,293,341
Equity					
Share capital	24	2,751,426	2,751,426	749,095	749,095
Legal and statutory reserves	25	2,774,315	2,751,426	755,327	749,095
General reserve		73,944	60,958	20,132	16,596
Retained earnings		12,395,984	11,421,558	3,374,893	3,109,599
Foreign currency translation reserve		(816,215)	(852,315)	(222,220)	(232,049)
Cumulative changes in fair value		100,400	50,671	27,335	13,796
Cash flow hedge reserve		16,253	12,872	4,425	3,504
Tier I capital notes	26	2,000,000	2,000,000	544,514	544,514
Equity attributable to equity holders of the Bank		19,296,107	18,196,596	5,253,501	4,954,150
Non-controlling interests	27	170,392	162,558	46,390	44,258
Total equity		19,466,499	18,359,154	5,299,891	4,998,408
Total liabilities and equity		107,518,104	103,915,594	29,272,558	28,291,749

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 06 February 2018 and signed on their behalf by:

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	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
		Attributable to equity holders of the Bank										
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
Cash dividend	24	-	-	-	(550,285)	-	-	-	-	(550,285)	(6,370)	(556,655)
Transfer to legal and statutory reserves	25	-	22,816	-	(22,816)	-	-	-	-	-	-	-
Transfer to general reserve		-	-	12,986	(12,986)	-	-	-	-	-	-	-
Interest on Tier I capital notes	26	-	-	-	(78,022)	-	-	-	-	(78,022)	-	(78,022)
Net profit for the year		-	-	-	1,644,771	-	-	-	-	1,644,771	12,435	1,657,206
Other movement in non-controlling interest		-	73	-	(439)	-	-	-	-	(366)	366	-
Other comprehensive income/(loss) for the year		-	-	-	(5,797)	36,100	49,729	3,381	-	83,413	1,403	84,816
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**
At 1 January 2016		2,751,426	2,712,542	38,977	10,534,902	(264,236)	(51,583)	4,072	2,000,000	17,726,100	169,147	17,895,247
Cash dividend	24	-	-	-	(550,285)	-	-	-	-	(550,285)	-	(550,285)
Transfer to legal and statutory reserves	25	-	38,884	-	(38,884)	-	-	-	-	-	-	-
Transfer to general reserve		-	-	21,981	(21,981)	-	-	-	-	-	-	-
Interest on Tier I capital notes	26	-	-	-	(69,028)	-	-	-	-	(69,028)	-	(69,028)
Net profit for the year		-	-	-	1,572,406	-	-	-	-	1,572,406	10,173	1,582,579
Other comprehensive income/(loss) for the year		-	-	-	(5,572)	(588,079)	102,254	8,800	-	(482,597)	(16,762)	(499,359)
At 31 December 2016		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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

	Notes	2017 AED '000	2016 AED '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before income tax		1,702,290	1,651,882
Adjustments for:			
Interest on medium term borrowings		149,988	144,862
Depreciation	*18*	72,870	76,122
Impairment charge on financial assets, (net)	*11*	793,685	702,349
Net loss / (gain) on investment properties	*16*	27,188	(27,996)
Net gain on non-trading investments		(25,956)	(28,632)
Translation adjustments		45,943	(478,859)
Net gain on sale of property and equipment		-	(3,644)
Operating profit before changes in operating assets and liabilities		2,766,008	2,036,084
Income tax paid		(44,323)	(84,994)
		2,721,685	1,951,090
Changes in:			
Trading investments		(80,449)	(86,572)
Due from banks maturing after three months		484,367	(1,308,455)
Loans and advances		1,771,502	(6,008,267)
Other assets		66,790	140,443
Customers' deposits		1,164,512	2,734,087
Due to banks maturing after three months		(285,130)	291,626
Other liabilities		47,338	(33,334)
Net cash from / (used in) operating activities		5,890,615	(2,319,382)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (purchase) / sale of property and equipment		(91,031)	11,434
Net purchase of non-trading investments		(5,800,340)	(389,169)
Increase in investment in associates		-	(96,027)
Purchase of investment properties		(38,439)	(126,481)
Net cash used in investing activities		(5,929,810)	(600,243)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to equity holders		(550,285)	(550,285)
Dividends paid to non-controlling interests		(6,370)	-
Proceeds from medium term borrowing		1,101,900	2,203,800
Interest on Tier 1 capital notes		(78,022)	(69,028)
Interest paid on medium term borrowings		(151,160)	(157,420)
Repayment of medium term borrowings		-	(2,387,450)
Net movement in non-controlling interests		1,403	(16,762)
Net cash from / (used in) financing activities		317,466	(977,145)
Net increase / (decrease) in cash and cash equivalents		278,271	(3,896,770)
Cash and cash equivalents at the beginning of the year		6,080,273	9,977,043
Cash and cash equivalents at the end of the year	*30*	6,358,544	6,080,273
Interest / profit received during the year		4,311,095	4,144,425
Interest / profit paid during the year		1,517,369	1,409,601

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

1. GENERAL INFORMATION

Union National Bank - Public Joint Stock Company (the "Bank") was incorporated in the Emirate of Abu Dhabi on 29 November 1982 as a Public Joint Stock Company with limited liability under an Emiri Decree and in accordance with UAE Federal Law No. 8 of 1984 (as amended). The Bank carries on commercial and investment banking activities through its seventy 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.

The Company has amended its Articles of Association to ensure that it complies with the provisions of the UAE Federal Law No. 2 of 2015, which came into force on 1 July 2015.

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

Name	Proportion of ownership interest		Year of incorporation	Country of incorporation	Principal activities
	As at 31 December 2017	As at 31 December 2016			
Union Brokerage LLC ("UBC")	**99.6%**	99.0%	2002	U.A.E.	Brokerage activities for customers trading in shares and securities on Dubai Financial Market and Abu Dhabi Securities Exchange.
Al Wifaq Finance Company PrJSC ("AWFC")	**89.2%**	89.2%	2006	U.A.E.	Finance company providing Shari'a compliant Islamic finance products through seven branches in the U.A.E.
Union National Bank – Egypt ("UNB-E"), an Egyptian Joint Stock Company	**96.6%**	96.6%	1981	Egypt	Commercial banking related activities through forty three branches in Egypt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies adopted are consistent with those of the previous financial year except as noted below.

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2017, 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 IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealised losses
- Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities
- Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12

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
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28	1 January 2018
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.	
Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions	1 January 2018
Amendments to IAS 40 *Investment Property:* Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9	When IFRS 9 is first applied
IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9	When IFRS 9 is first applied

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014)	1 January 2018

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment**: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised
- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRS 15 *Revenue from Contracts with Customers*	1 January 2018

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	
Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	1 January 2018
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.	
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.
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**.**	
Amendments to IFRS 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments**.**	1 January 2019
Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2019

Management anticipates that IFRS 15 and IFRS 9 will be adopted in the consolidated financial statements for the annual period beginning 1 January 2018 and that IFRS 16 will be adopted in the consolidated financial statements for the annual period beginning 1 January 2019. The application of IFRS 9 will have significant impact on amounts reported and disclosures made in the consolidated financial statements in respect of Group's financial assets and financial liabilities and the application of IFRS 15 and IFRS 16 will not have significant impact on amounts reported and disclosures made in the consolidated financial statements in respect of revenue from contracts with customers and leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

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

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

In July 2014 the IASB published the final version of the new standard that replaces IAS 39 Financial instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 is for annual periods beginning on or after 1 January 2018. IFRS 9 has changed requirements for Classification and measurement, Impairment and Hedge accounting, in addition to containing extensive new disclosure requirements. The Group expects that the main impact of implementing IFRS 9 arises from the significant changes to the impairment model. IFRS 9 replaces the 'incurred loss' model with the 'expected credit loss model'. The main difference is that IFRS 9 requires entities to recognise expected credit losses in profit or loss for all financial assets not measured at fair value through profit or loss, even for those that are newly originated or acquired. IAS 39 only allows the recognition of a loss if a loss event has occurred. The main impact of implementing this new impairment model is that credit risk losses will be recognised earlier and that forward-looking information will be incorporated in the loss calculation. This difference in approach might result in higher loan loss impairments and corresponding lower equity.

Classification and measurement of financial assets and liabilities

IFRS 9 requires that an entity's business model and a financial instrument's contractual cash flows will determine its classification and measurement in the financial statements. Upon initial recognition each financial asset will be classified as either fair value through profit or loss ('FVTPL'), amortized cost, or fair value through Other Comprehensive Income ('FVOCI'). As the requirements under IFRS 9 are different than the assessments under the existing IAS 39 rules, some differences to the classification and measurement of financial assets under IAS 39 are expected. The classification and measurement of financial liabilities remain largely unchanged under IFRS 9 from current requirements.

In 2017, the Group made a determination of business models and assessed the contractual cash flow characteristics of the financial assets to determine the potential classification and measurement changes as a result of IFRS 9. As a result of the analysis performed so far, the Group has identified a population of financial assets which are expected to be measured at either amortized cost or fair value through other comprehensive income, which will be subject to the IFRS 9 impairment rules.

Impairment of financial assets

The impairment requirements of IFRS 9 apply to financial assets that are measured at amortized cost or FVOCI, and off balance sheet lending commitments such as loan commitments and financial guarantees. The determination of impairment losses and allowance will move from an incurred credit loss model whereby credit losses are recognized when a defined loss event occurs under IAS 39, to an expected loss model under IFRS 9, where provisions are taken upon initial recognition of the financial asset (or the date that the Group becomes a party to the loan commitment or financial guarantee), based on expectations of potential credit losses at that time under IFRS 9. Currently, the Group first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

Under IFRS 9 for financial assets originated or purchased, the Group will recognize a loss allowance at an amount equal to 12-month expected credit losses, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1). This amount represents the expected credit losses resulting from default events that are possible within the next 12 months. The interest revenue is calculated on the gross carrying amount for financial assets in Stage 1.

IFRS 9 requires the recognition of credit losses over the remaining life of the financial assets ('lifetime expected losses') which are considered to have experienced a significant increase in credit risk (Stage 2) and for financial assets that are credit impaired at the reporting date (Stage 3). The lifetime expected credit losses represent all possible default events over the expected life of a financial instrument. For transferring financial assets to Stage 2, the Group uses comprehensive standards for assessing increase in credit risk for relationship products. The standards use a judicious mix of current and expected future information involving both internal information (that includes credit rating changes, past dues, changes in credit management approach and loan documentation) and external environment that (includes changes in regulatory, financial and economic conditions. However, this is rebuttable in cases where reasonable and supportable information that is more forward-looking than past due information is available without undue cost or effort, which is used to assess changes in credit risk instead of relying solely on past due information. For non-relationship based products, increase in credit risk is assessed on the basis of changes in transaction behavior, past dues and available external forward looking information. The interest revenue is calculated on the gross carrying amount for financial assets in Stage 2.

The Group classifies customers as credit impaired financial assets moving to Stage 3 when an obligor is 'past due' for more than 90 days from the contracted due date on any credit obligation to the Group, owing to material credit weakness.

Interest revenues are calculated on the net carrying amount for these financial assets only. Forward-looking information, including macro-economic factors is taken into account to measure IFRS 9 compliant expected credit losses.

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

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

Impairment of financial assets *(continued)*

IFRS 9 does not distinguish between individually significant or not individually significant financial instruments. Therefore, the Group decided to measure the allowance for credit losses on an individual transaction basis. Similarly, the assessment for transferring financial assets between Stages 1, 2 and 3 will also be made on an individual transaction basis.

The Group uses three main components to measure expected credit losses which are a probability of default ('PD'), a loss given default ('LGD') and the exposure at default ('EAD'). For the purpose of IFRS 9 the allowance for credit losses is affected by a variety of key characteristics, such as, but not limited to the expected balance at default and the related amortization profile as well as the expected life of the financial asset. As a consequence, the allowance for credit losses for Stage 2 financial assets will increase with the expected lifetime or the expected EAD. Incorporating forecasts of future economic conditions into the measurement of expected credit losses will additionally cause an impact on the allowance for credit losses for each stage. In order to calculate lifetime expected credit losses, the Group's calculation includes deriving the corresponding lifetime PDs that reflect the economic forecasts.

As a result of IFRS 9, there will be an increase in subjectivity as the allowance for credit losses will be based on reasonable and supportable forward-looking information which take into consideration future macro-economic scenarios. IFRS 9 is estimated to result in an increase in the overall level of allowances for credit losses as noted above. This estimated increase is driven by the requirement to record an allowance equal to 12 months expected credit losses on those instruments whose credit risk has not significantly increased since initial recognition and by the population of financial assets to which lifetime expected losses must be applied.

Hedging

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. Generally, some restrictions under current rules have been removed and a greater variety of hedging instruments and hedged items become available for hedge accounting. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group, however, has elected to adopt the new hedge accounting provisions of IFRS 9.

Impact assessment of IFRS 9

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Based on the assessments undertaken to date and the current implementation status, management of the Group estimates the adoption of IFRS 9 would lead to an overall approximate reduction of total shareholders' equity of 3.7% on the date of transition. This amount is preliminary and subject to change because not all transition work has been finalised and the Group continues to refine the underlying methodologies and models underpinning the credit impairment calculation. The Group plans to publish transitional disclosures in its first quarterly financial statements of 2018 describing the impact of adoption of IFRS 9 as at 1 January 2018.

(a) Basis of preparation

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

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

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

(b) Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries as at 31 December 2017. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

(b) Basis of consolidation *(continued)*

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

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

a. The size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

b. Potential voting rights held by the Company, other vote holders or other parties;

c. Rights arising from other contractual arrangements; and

d. Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

(c) Business combinations

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

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

(c) Business combinations *(continued)*

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

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

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

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

Goodwill

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

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

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

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

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

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

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

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These judgments, estimates and assumptions also affect the revenue, expenses and provisions as well as fair value changes.

These judgments, estimates and assumptions may affect the reported amounts in subsequent financial years. Estimates and judgments are continually evaluated and are based on historical experience and other factors. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows in order to determine the level of impairment provisions required for non-performing loans as well as for non-trading investments. In order to reduce the element of subjectivity, the Group has laid down clear criteria to enable estimation of future cash flows. As estimates are based on judgments, actual results may differ, resulting in future changes in such provisions.

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

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

Impairment of debt securities and loans and advances

The Group reviews its debt securities and loans and advances at each reporting date to assess whether a provision for impairment should be recorded in profit or loss. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Actual results may differ from this initial assessment and result in subsequent adjustments to such provisions.

In addition to specific provisions against individually significant debt securities and loans and advances, the Group also makes a collective provision to cover losses which have been incurred but not yet been identified. The amount of provision is based on the historical loss pattern of market available comparable data and is adjusted to reflect current economic changes.

The amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal shall be recognised in profit or loss.

Details of impairment provisions on debt securities and loans and advances are provided in note 11.

Held to maturity investments

The Group follows the guidance of IAS 39: *Financial Instruments: Recognition and Measurement* on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgments. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances, it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value not amortised cost.

Impairment of available for sale investments

The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment for which management takes into consideration, amongst other factors, share price volatility and the underlying asset base of the investee companies. The Group reviews its available for sale debt investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

Impairment of goodwill

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

Impairment of property and equipment

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

Fair value of financial instruments

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

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

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

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

Useful lives and residual values of property and equipment

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

Fair value of investment properties and investment properties under development

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

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

The key assumptions used are as follows:

	Range	
	2017	2016
Selling price per square foot for apartments	**AED 700 – AED 1,450**	AED 800 - AED 1,500
Selling price per square foot for retail units	**AED 1,675 – AED 3,100**	AED 1,750 - AED 3,250

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

Classification of properties

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

(e) Financial instruments

(i) Recognition

The Group initially recognises financial assets or financial liabilities held for trading, financial assets or financial liabilities designated at fair value through profit or loss, available for sale investments and held to maturity investments on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

(ii) Classification

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

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

(e) Financial instruments *(continued)*

(ii) Classification *(continued)*

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

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

Loans and receivables

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

Held to maturity investments

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

Available for sale investments

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

Other financial liabilities

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

(iii) Derecognition

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 risk 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 assets, 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 collateral borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain 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 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.

Financial assets held for trading, financial assets designated at fair value through profit or loss, available for sale investment and held to maturity investments that are sold are derecognised and the corresponding receivables from the buyer for the payment are recognised as at the date the Group commits to sell the assets. The Group uses the specific identification method to determine the gain or loss on derecognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

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

(e) Financial instruments *(continued)*

(iii) Derecognition *(continued)*

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

(iv) Measurement

Financial assets and financial liabilities are initially measured at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities.

Subsequent to initial recognition, financial assets or financial liabilities at fair value through profit or loss are measured at fair value. Gains or losses arising from a change in the fair value are recognised directly in profit or loss.

Subsequent to initial recognition, financial assets classified as available for sale are measured at fair value. For financial assets which are not part of an effective hedge relationship, unrealised gains or losses on measurement to fair value are recognised in the consolidated statement of comprehensive income in the cumulative changes in fair value of available for sale investments until the investments are sold or otherwise disposed off, or the financial assets are determined to be impaired, at which time the cumulative gains or losses previously reported in the consolidated statement of comprehensive income are included in profit or loss. For investments which are part of an effective fair value hedge relationship, any unrealised gain or loss arising from a change in fair value is recognised directly in profit or loss to the extent of the changes in fair value being hedged. For investments in equity instruments, where a reasonable estimate of the fair value cannot be determined, the investment is carried at cost less impairment allowance, if any.

All financial assets or liabilities at amortised cost, loans and advances and held to maturity investments are measured at amortised cost, less any reduction for impairment. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(v) Fair value measurement principles

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

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

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

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

Fair value information for held to maturity investments have been disclosed in Note 3.5.

(vi) Offsetting financial instruments

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

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

(f) Impairment

(i) Financial assets

Loans and advances

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

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

Held to maturity investments

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

Available for sale investments

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

(ii) Property and equipment

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

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

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

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

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

(g) Investment properties

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

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

(h) Property and equipment

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

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

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

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

(i) Collateral pending sale

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

(j) Zakat

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

(k) Staff termination and other benefits

Pension obligations

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

Termination gratuity benefit scheme

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

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

(k) Staff termination and other benefits *(continued)*

Termination gratuity benefit scheme *(continued)*

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

Voluntary employee saving scheme

The Bank and its subsidiaries incorporated in the UAE are participants to a voluntary employee savings scheme (VESS). Employees who are members of VESS contribute a specific percentage of their basic salary and the Bank and its subsidiaries incorporated in the UAE also contribute the matching amount. The Group's share is not payable to the employee unless they complete three years of continuous employment with the Group. The contribution made by the Group to the VESS is charged to profit or loss on an accrual basis.

(l) Revenue recognition

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

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income are recognised as the related services are performed.

Net investment income include realised gains and losses arising from disposals, unrealised gains and losses due to changes in the fair value of investments held for trading and investments designated at fair value through profit or loss and dividend income. Gains and losses arising from changes in fair value of available for sale investments are recognised in the statement of other comprehensive income. Once the available for sale 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. Dividend income is recognised in profit or loss when the entity's right to receive payment is established.

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

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

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

(m) Provisions

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

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

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

(n) Taxation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

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

(n) Taxation *(continued)*

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

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

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

(o) Cash and cash equivalents

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

(p) Leasing

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

The Group as lessor

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

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

The Group as lessee

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

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

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

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

(q) Foreign currencies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

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

(q) Foreign currencies *(continued)*

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

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

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

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

(r) Fiduciary assets

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

(s) Operating segment reporting

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

(t) Financial guarantee contracts

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at higher of the amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantee liabilities are included within other liabilities.

(u) Repurchase and resale agreements

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

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

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

(v) Investment in associates

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

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

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

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of this impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

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

(w) Derivative financial instruments

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

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

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

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

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

(w) Derivative financial instruments *(continued)*

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts 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 fair value through profit or loss.

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

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

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the changes in fair value of both the derivative and the hedged item attributable to hedged risk are recognised in profit or loss and the carrying amount of the hedged item is adjusted accordingly. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point to the carrying value of a hedged item for which the effective interest method is used, is amortised in profit or loss as part of the recalculated effective interest rate over the period to maturity or derecognition.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective part is recognised immediately in the profit or loss. Amounts accumulated in equity are reclassified from other comprehensive income and transferred to the profit or loss in the periods in which the hedged item affects profit or loss, in the same line of the profit or loss as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the Bank revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting.

Any cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the profit or loss. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the profit or loss from other comprehensive income.

Hedge effectiveness testing

To qualify for hedge accounting, the Group requires that at the inception of the hedge and through its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis. The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Group adopts for assessing hedge effectiveness depends on its risk management strategy. For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent. Hedge ineffectiveness is recognised in profit or loss.

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

(x) Hedge accounting *(continued)*

Derivatives that do not qualify for hedge accounting

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

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

Mudaraba

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

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

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

Wakala investment

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

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

Share Murabaha

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

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

Purchase by way of Murabaha

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

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

Qard Hasan

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

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

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

Istisna'a

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

Wakala deposits

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

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

Ijara Muntahiya Bil Tamleek Finance

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

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

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

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

Forward Ijara

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

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

Islamic Home Finance

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

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

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

Murabaha

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

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

Musharaka Investment

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

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

Depositors' share of profit

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

3 FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

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

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

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

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

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

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

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

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

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

(a) Derivative financial instruments

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

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

(b) Trading activities

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

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

Credit Risk

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

Market Risk

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk

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

3.1.1 Credit risk management

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

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

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

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

Credit quality per class of financial assets

All corporate and commercial facilities are assigned internally developed risk ratings on initial recognition and thereafter reassessed on an annual basis or an earlier date in the event of any adverse information. The Bank has a risk rating system which grades accounts ranging from Grades 1 to 13 based on probability of default in compliance with the requirements of Basel framework. Grades 1 to 3 are assigned to accounts that are of highest credit quality with low credit risk. Grades 4 to 8 are assigned to accounts that are of adequate to normal credit quality with medium credit risk. Grade 9 is assigned to internal watch list accounts whereas grade 10 is the watch list accounts as per Central Bank of the UAE (CB-UAE). Accounts classified in grades 11 to 13 indicate non-performing status. Accounts classified in grade 1 to 10 are disclosed as neither past due nor impaired except past due accounts which are disclosed as past due but not impaired.

The internally developed risk ratings are not intended to replicate external credit grades but as factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a worse internal credit grade.

In 2017, the Group implemented a new rating system for rating customers from grades 1 to 22. The new rating system assigns individual probability of defaults (PD) to customers using a judicious blend of quantitative and qualitative customer data and is more granular with 19 performing and 3 non-performing grades. The Group will transition from the current 13 grade rating system to the new 22 grade rating system in 2018.

Past due but not impaired financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.1 Credit risk management *(continued)*

Past due but not impaired financial assets *(continued)*

The gross carrying amount of financial assets less impairment losses, if any, is as follows:

	Neither past due nor impaired					
	Normal grade	Watch list	Past due but not impaired	Impaired	Impairment allowance	Total
31 December 2017	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with central banks	**9,196,456**	**-**	**-**	**-**	**-**	**9,196,456**
Due from banks	**1,745,646**	**-**	**-**	**104**	**(104)**	**1,745,646**
Loans and advances	**61,940,761**	**2,580,826**	**6,524,237**	**3,202,135**	**(3,110,654)**	**71,137,305**
Investments (except equity)	**20,953,568**	**-**	**-**	**-**	**-**	**20,953,568**
Others	**1,716,142**	**-**	**-**	**-**	**-**	**1,716,142**
	95,552,573	**2,580,826**	**6,524,237**	**3,202,239**	**(3,110,758)**	**104,749,117**
31 December 2016						
Cash and balances with central banks	7,916,291	-	-	-	-	7,916,291
Due from banks	2,156,621	-	-	104	(104)	2,156,621
Loans and advances	65,469,532	2,734,229	5,729,991	2,637,557	(2,856,909)	73,714,400
Investments (except equity)	15,670,413	-	-	-	-	15,670,413
Others	1,737,871	-	-	-	-	1,737,871
	92,950,728	2,734,229	5,729,991	2,637,661	(2,857,013)	101,195,596

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.1 Credit risk management *(continued)*

Past due but not impaired financial assets *(continued)*

The table below represents credit quality of loans and advances which are neither past due nor impaired as at 31 December:

	2017	2016
	AED'000	AED'000
Risk grades 1 to 3	18,364,764	22,498,873
Risk grades 4 to 8	20,478,443	22,767,105
Risk grade 9	3,182,053	3,996,168
Risk grade 10	2,580,826	2,734,229
Ungraded – Retail loans	19,915,501	16,207,386
	64,521,587	68,203,761

Ageing analysis of past due but not impaired loans

	2017	2016
	AED'000	AED'000
0 to 30 days	5,817,676	5,129,304
31 to 90 days	327,626	132,425
Over 90 days	378,935	468,262
	6,524,237	5,729,991

Impairment assessment

Specific impairment: The Group has a defined policy in line with Central Bank of the UAE and IFRS to recognise the impairment allowance on an individual basis. Individually assessed loans are required to be classified as non-performing as soon as there is objective evidence that an impairment loss has been incurred. Objective evidence of impairment includes observable data such as when contractual payment of principal or interest is overdue for 90 days or there are known difficulties in the cash flows of counterparties, credit rating downgrades or original terms of the contractual repayment are unable to be met.

Collective impairment: The Group has a defined policy in line with Central Bank of the UAE and IFRS to recognise the collective impairment provision. These are impairments that cannot be identified with an individual loan and are estimated on a portfolio basis.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.1 Credit risk management *(continued)*

Impairment assessments *(continued)*

Specific impairment allowance for corporate portfolio is calculated taking into account expected future cash flows discounted at the original effective interest rate. In the case of retail portfolio, the impairment allowance and write-offs are automated in order to exercise better control over the portfolio. Such allowances commence when retail advances are overdue 90 days and are fully provided for when retail advances are overdue by 180 days.

Reversal of individually calculated impairment allowances are recognised whenever the Group has reasonable objective evidence that the established estimate of loss has been reduced.

Collective impairment allowances are reassessed quarterly and charges for new allowances or release from the existing allowances are considered.

Write off

Impaired corporate accounts and related impairment allowances are written off on a case by case basis either partially or fully when there is no realistic prospect of recovery of these amounts i.e. when all legal avenues for recovery have been exhausted and when the proceeds from the realisation of security have been received. Retail loans are written-off after 241 days overdue.

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

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

Loans with restructured / renegotiated terms

The contractual terms of a loan may be modified for a number of reasons, and not limited to credit deterioration of the customer. When determining whether a renegotiated loan should be derecognised and a new loan be recognised, the Group performs a quantitative and qualitative evaluation of whether the changes to the original contractual terms result in a substantially different financial instrument, in which case an existing loan is derecognised and the renegotiated loan is recognised at fair value. For loans under credit deterioration, irrespective of whether the loan is derecognised on renegotiation, it remains disclosed at same risk grade until there is sufficient evidence of improvement.

Restructuring activity is designed to manage customer relationships, maximise collection opportunities and avoid foreclosure or repossession, if possible. Following restructuring, an overdue individual account will normally be reset from delinquent to current status. Restructuring is done based on indications or criteria which, in the opinion of management, evidence the probability that payment will continue. The loan continues to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.1 Credit risk management *(continued)*

Collateral and other credit enhancements obtained

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

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

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

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

	2017 AED'000	2016 AED'000
Against loans and advances not impaired		
Property	**12,483,979**	13,348,667
Securities	**4,190,875**	4,609,015
Cash margins and lien over fixed deposits	**597,329**	584,242
Others	**1,569,170**	1,054,515
	18,841,353	19,596,439
Against individually impaired		
Property	**809,382**	555,952
Securities	**54,759**	28,639
Cash margins and lien over fixed deposits	**10,167**	1,630
Others	**3,613**	13,403
	877,921	599,624

Among all financial assets, loans and advances with a carrying amount of AED 71,137,305 thousand (2016: AED 73,714,400 thousand) have collaterals with fair value of AED 40,905,456 thousand (2016: AED 41,640,861 thousand).

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.1 Credit risk management *(continued)*

Credit concentration

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

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

3.1.2 Exposure to credit risk

Analysis of financial assets by economic sector is as follows:

31 December 2017	Cash and balances with central banks AED'000	Due from banks AED'000	Loans and advances AED'000	Investments (except equity) AED'000	Total AED'000
Sovereign	8,423,669	-	4,651,401	9,068,191	22,143,261
Consumer	-	-	20,516,639	-	20,516,639
Financial institutions	772,787	1,745,750	9,253,621	7,802,367	19,574,525
Real estate and mortgage	-	-	11,064,914	980,387	12,045,301
Services	-	-	7,016,487	807,397	7,823,884
Energy	-	-	4,259,996	1,661,785	5,921,781
Trade	-	-	5,648,120	169,641	5,817,761
Construction	-	-	4,095,460	-	4,095,460
Manufacturing	-	-	3,443,975	463,800	3,907,775
Others	-	-	4,297,346	-	4,297,346
Gross balance	9,196,456	1,745,750	74,247,959	20,953,568	106,143,733
Impairment allowance	-	(104)	(3,110,654)	-	(3,110,758)
Net balance	9,196,456	1,745,646	71,137,305	20,953,568	103,032,975

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.2 Exposure to credit risk *(continued)*

Analysis of financial assets by economic sector is as follows:

31 December 2016	Cash and balances with central banks AED'000	Due from banks AED'000	Loans and advances AED'000	Investments (except equity) AED'000	Total AED'000
Sovereign	7,369,213	-	5,681,443	6,600,301	19,650,957
Consumer	-	-	16,730,418	-	16,730,418
Financial institutions	547,078	2,156,725	10,939,052	5,552,998	19,195,853
Real estate and mortgage	-	-	12,287,807	388,293	12,676,100
Services	-	-	7,402,042	647,565	8,049,607
Energy	-	-	4,629,506	1,915,606	6,545,112
Trade	-	-	6,018,397	395,167	6,413,564
Construction	-	-	4,762,905	-	4,762,905
Manufacturing	-	-	3,502,434	170,483	3,672,917
Others	-	-	4,617,305	-	4,617,305
Gross balance	7,916,291	2,156,725	76,571,309	15,670,413	102,314,738
Impairment allowance	-	(104)	(2,856,909)	-	(2,857,013)
Net balance	7,916,291	2,156,621	73,714,400	15,670,413	99,457,725

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

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

	Gross maximum exposure 2017 AED'000	Gross maximum exposure 2016 AED'000
Balances with central banks	**8,423,669**	7,369,213
Due from banks	**1,745,646**	2,156,621
Loans and advances	**71,137,305**	73,714,400
Investments (except equity)	**20,953,568**	15,670,413
Other assets	**1,716,142**	1,737,871
Total	**103,976,330**	100,648,518
Contingent liabilities [Note 28(b)]	**31,248,847**	33,945,797
Loans and advances commitments – irrevocable [Note 28(a)]	**2,471,487**	2,980,382
Total	**33,720,334**	36,926,179
Total maximum credit risk exposure	**137,696,664**	137,574,697

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.2 Exposure to credit risk *(continued)*

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.2 Exposure to credit risk *(continued)*

31 December 2016	UAE AED'000	GCC* (excluding UAE) AED'000	OECD** countries AED'000	Others AED'000	Total AED'000
ASSETS					
Financial assets					
Cash and balances with central banks	7,394,537	57,826	-	463,928	7,916,291
Due from banks	585,680	316,305	695,070	559,566	2,156,621
Loans and advances	68,184,666	2,688,687	3,127	2,837,920	73,714,400
Investments	9,580,618	1,901,948	754,861	3,533,894	15,771,321
Other assets	1,679,739	13,733	21	44,378	1,737,871
Non-financial assets					
Investment properties	2,029,018	-	-	-	2,029,018
Other assets	198,142	2,035	-	33,729	233,906
Property and equipment	190,266	7,760	-	82,675	280,701
Goodwill	-	-	-	75,465	75,465
	89,842,666	4,988,294	1,453,079	7,631,555	103,915,594
LIABILITIES AND EQUITY					
Financial liabilities					
Customers' deposits	64,174,386	4,292,368	20,633	9,037,441	77,524,828
Due to banks	303,400	27	104,645	97,608	505,680
Medium term borrowings	1,188,323	274,228	3,908,705	-	5,371,256
Other liabilities	1,604,340	13,793	23,863	62,285	1,704,281
Non-financial liabilities					
Other liabilities	396,329	4,668	-	49,398	450,395
Equity	18,347,559	-	-	11,595	18,359,154
	86,014,337	4,585,084	4,057,846	9,258,327	103,915,594

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3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Liquidity risk

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

Management of liquidity risk

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

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

Analysis of financial liabilities by contractual undiscounted payment obligations

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2017 and 31 December 2016 based on the contractual undiscounted payment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

31 December 2017	Up to three months AED'000	From three months to one year AED'000	From one year to three years AED'000	From three years to five years AED'000	Over five years AED'000	Total AED'000
Customers' deposits	54,251,987	23,132,638	2,256,820	33,496	30,715	79,705,656
Due to banks	715,046	-	-	1,024	4,270	720,340
Medium term borrowings	400,299	2,960,910	187,340	3,407,142	-	6,955,691
Other liabilities	1,322,821	444,432	29,917	-	-	1,797,170
Total	56,690,153	26,537,980	2,474,077	3,441,662	34,985	89,178,857
31 December 2016						
Customers' deposits	58,028,913	17,425,176	2,306,856	443,804	4,818	78,209,567
Due to banks	214,117	289,719	-	-	1,947	505,783
Medium term borrowings	8,608	87,069	3,355,757	2,326,861	-	5,778,295
Other liabilities	1,096,284	394,872	98,833	74,078	40,214	1,704,281
Total	59,347,922	18,196,836	5,761,446	2,844,743	46,979	86,197,926

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Liquidity risk *(continued)*

Maturity profile of assets and liabilities

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Liquidity risk *(continued)*

The maturity profile of assets and liabilities at 31 December 2016 was as follows:

31 December 2016	Up to three months AED'000	From three months to one year AED'000	From one year to three years AED'000	From three years to five years AED'000	Over five years AED'000	Unspecified maturity AED'000	Total AED'000
ASSETS							
Cash and balances with central banks	5,906,149	2,010,142	-	-	-	-	7,916,291
Due from banks	1,972,971	-	183,650	-	-	-	2,156,621
Loans and advances	13,211,366	7,469,577	15,944,411	11,628,974	25,460,072	-	73,714,400
Investments	2,429,252	1,849,680	3,733,017	4,232,202	3,466,798	60,372	15,771,321
Investment properties	-	-	-	-	-	2,029,018	2,029,018
Other assets	1,111,808	369,304	77,770	51,603	85,390	275,902	1,971,777
Property and equipment	-	-	-	-	-	280,701	280,701
Goodwill	-	-	-	-	-	75,465	75,465
Total	24,631,546	11,698,703	19,938,848	15,912,779	29,012,260	2,721,458	103,915,594
LIABILITIES AND EQUITY							
Customers' deposits	57,786,708	17,051,719	2,240,111	442,272	4,018	-	77,524,828
Due to banks	214,055	289,690	-	-	1,935	-	505,680
Medium term borrowings	-	-	3,181,501	2,189,755	-	-	5,371,256
Other liabilities	1,061,421	463,887	117,296	74,078	42,258	395,736	2,154,676
Equity	-	-	-	-	-	18,359,154	18,359,154
Total	59,062,184	17,805,296	5,538,908	2,706,105	48,211	18,754,890	103,915,594
Net liquidity gap	(34,430,638)	(6,106,593)	14,399,940	13,206,674	28,964,049	(16,033,432)	-

3.3 Market risk

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

Management of market risk

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

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Market risk *(continued)*

3.3.1 Interest rate risk

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Market risk *(continued)*

3.3.1 Interest rate risk *(continued)*

The Group's interest rate sensitivity positions as at 31 December 2016, based on the contractual repricing or maturity dates, whichever earlier, is as follows:

	Up to three months	From three months to one year	From one year to three years	From three years to five years	Over five years	Non interest bearing	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
ASSETS							
Cash and balances with central banks	1,681,606	1,981,409	-	-	-	4,253,276	7,916,291
Due from banks	1,775,490	-	-	-	-	381,131	2,156,621
Loans and advances	47,230,584	15,977,927	3,197,955	2,601,303	3,678,925	1,027,706	73,714,400
Investments	2,895,510	1,736,430	3,601,662	4,086,281	3,394,409	57,029	15,771,321
Investment properties	-	-	-	-	-	2,029,018	2,029,018
Other assets	40,316	12,008	44,891	-	1,080	1,873,482	1,971,777
Property and equipment	-	-	-	-	-	280,701	280,701
Goodwill	-	-	-	-	-	75,465	75,465
Total	53,623,506	19,707,774	6,844,508	6,687,584	7,074,414	9,977,808	103,915,594
LIABILITIES AND EQUITY							
Customers' deposits	44,915,022	16,926,092	2,219,107	32,014	9,884	13,422,709	77,524,828
Due to banks	164,514	289,690	-	-	1,935	49,541	505,680
Medium term borrowings	3,102,948	-	78,553	2,189,755	-	-	5,371,256
Other liabilities	18,793	6,106		-	-	2,129,777	2,154,676
Equity	2,000,000	-	-	-	-	16,359,154	18,359,154
Total	50,201,277	17,221,888	2,297,660	2,221,769	11,819	31,961,181	103,915,594
Total on statement of financial position interest rate sensitivity gap	3,422,229	2,485,886	4,546,848	4,465,815	7,062,595	-	-
Total off statement of financial position interest rate sensitivity gap	7,689,871	(350,275)	(4,041,755)	(2,003,805)	(1,294,036)	-	-
Cumulative interest rate sensitivity gap	11,112,100	13,247,711	13,752,804	16,214,814	21,983,373	-	-

There is no change in the methods and assumptions used in presenting the interest rate sensitivity analysis for year 2017 and year 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Market risk *(continued)*

3.3.1 Interest rate risk *(continued)*

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

	2017		2016	
	Net interest income AED'000	Market value of equity AED'000	Net interest income AED'000	Market value of equity AED'000
Fluctuation in yield				
25 bps increase	31,486	(107,462)	26,310	(103,350)
25 bps decrease	(31,486)	107,462	(26,310)	103,350

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on interest bearing assets of AED 97,159 million (2016: AED 93,938 million) and interest bearing liabilities and equity of AED 72,404 million (2016: AED 71,954 million). The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

3.3.2 Foreign currency risk

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Market risk *(continued)*

3.3.2 Foreign currency risk *(continued)*

The following table shows the Group's exposure to foreign currencies as at 31 December 2016:

	Assets AED'000	Liabilities AED'000	Net cash position AED'000	Net forward position AED'000	Net long / (short) position AED'000
US Dollar*	39,192,420	28,564,033	10,628,387	(360,122)	10,268,265
Egyptian Pound	3,223,757	2,864,847	358,910	-	358,910
Kuwaiti Dinar	596,182	245,935	350,247	(102,151)	248,096
Saudi Riyal	733,182	38,125	695,057	(688,519)	6,538
Swiss Franc	279,570	365,980	(86,410)	94,133	7,723
Euro	1,599,043	1,425,326	173,717	(174,697)	(980)
UK Sterling	266,479	392,255	(125,776)	125,518	(258)
Qatari Riyal	245,211	206,374	38,837	(37,321)	1,516
Japanese Yen	209,573	275,981	(66,408)	66,525	117
Chinese Yuan	138,428	1,181	137,247	(136,946)	301
Others	49,566	14,809	34,757	(34,171)	586
	46,533,411	34,394,846	12,138,565	(1,247,751)	10,890,814

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

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

	2017		2016	
	Net profit AED'000	Equity AED'000	Net profit AED'000	Equity AED'000
Increase in exchange rate by 1%				
USD	101,310	101,310	102,682	102,682
EGP	3,821	3,821	3,589	3,589
KWD	2,599	2,599	2,480	2,480
Decrease in exchange rate by 1%				
USD	(101,310)	(101,310)	(102,682)	(102,682)
EGP	(3,821)	(3,821)	(3,589)	(3,589)
KWD	(2,599)	(2,599)	(2,480)	(2,480)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Market risk *(continued)*

3.3.3 Equity price risk

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

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

Investments classified as held for trading and designated at fair value through profit or loss	Assumed level of change	Impact on net income	
		2017	2016
	%	AED'000	AED'000
Reference equity benchmarks:			
Other equity exchanges	5%	2,321	1,596
Net asset value of managed funds	5%	149	165

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

Available for sale investments	Assumed level of change	Impact on equity	
		2017	2016
	%	AED'000	AED'000
Reference equity benchmarks:			
UAE equity exchanges	5%	666	589
Other equity exchanges	5%	345	368

3.3.4 Prepayment risk

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

The effect on profit for one year, assuming 10% of repayable financial instruments were to be repaid at the beginning of the year, with all other variables held constant, is estimated at AED 39,830 thousand (2016: AED 45,775 thousand).

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all the Group's operations and are faced by all business entities.

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

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

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

3.5 Fair value measurement

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

The fair value of the Group's assets and liabilities is not materially different from the carrying value at 31 December 2017 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 is disclosed in Note 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.5 Fair value measurement *(continued)*

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.5 Fair value measurement *(continued)*

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2016:

	Held for trading	Designated at fair value through profit or loss	Available for sale	Held to maturity	Loans and receivables	Other amortised cost	Hedging derivatives	Carrying amount
	AED '000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
FINANCIAL ASSETS								
Cash and balances with central banks	-	-	-	-	-	7,916,291	-	7,916,291
Due from banks	-	-	-	-	-	2,156,621	-	2,156,621
Loans and advances	-	-	-	-	73,714,400	-	-	73,714,400
Investments	3,472	37,057	13,623,172	2,107,620	-	-	-	15,771,321
Other assets	105,156	168,464	-	-	515,794	879,233	69,224	1,737,871
	108,628	205,521	13,623,172	2,107,620	74,230,194	10,952,145	69,224	101,296,504
FINANCIAL LIABILITIES								
Customers' deposits	-	-	-	-	-	77,524,828	-	77,524,828
Due to banks	-	-	-	-	-	505,680	-	505,680
Medium term borrowings	-	-	-	-	-	5,371,256	-	5,371,256
Other liabilities	104,780	168,464	-	-	-	1,326,135	104,902	1,704,281
	104,780	168,464	-	-	-	84,727,899	104,902	85,106,045

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.5 Fair value measurement *(continued)*

Fair value hierarchy

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

Quoted market prices – Level 1

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

Valuation techniques using observable inputs – Level 2

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

Valuation techniques using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques. This category mainly includes investment properties, 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 classified as Level 3 are stated at fair value, which has been determined based on the valuation performed by independent professional valuers. The valuation methodologies considered by external valuers include Comparable Method and Residual Value Method.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.5 Fair value measurement *(continued)*

Fair value hierarchy *(continued)*

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

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

The below table shows the hierarchy used by the Group for the assets and liabilities that are measured at fair value or for which fair value information is disclosed as at 31 December 2016:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets				
Held for trading investments	3,472	-	-	3,472
Financial assets designated at fair value through profit or loss	33,751	3,306	-	37,057
Available for sale investments	12,213,904	1,351,732	57,536	13,623,172
Derivative financial instruments	-	174,380	-	174,380
Other assets	-	168,464	-	168,464
Investment properties	-	-	2,029,018	2,029,018
	12,251,127	1,697,882	2,086,554	16,035,563

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.5 Fair value measurement *(continued)*

Fair value hierarchy *(continued)*

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Liabilities				
Derivative financial instruments	-	209,682	-	209,682
Other liabilities	-	168,464	-	168,464
	-	378,146	-	378,146
For disclosure purposes				
Held to maturity investments	2,071,783	18,025	-	2,089,808

During the year ended 31 December 2017, 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 (2016: Nil). Movement of financial assets measured based on the Level 3 hierarchy are as follows:

	2017 AED'000	2016 AED'000
Opening balance	2,086,554	1,929,451
Additions	40,116	129,548
Settlement/sale	(5,500)	(1,217)
Transfer from property and equipment	-	1,972
Net (loss) / gain on fair valuation	(27,188)	27,996
Exchange differences	82	(1,196)
	2,094,064	2,086,554

4 Interest income

	2017 AED'000	2016 AED'000
Loans and advances	3,285,803	3,139,323
Due from banks	138,307	77,395
Investments		
- Available for sale	424,048	490,359
- Held to maturity	164,288	134,932
- Held for trading	414	8,514
	4,012,860	3,850,523

5 Interest expense

	2017 AED'000	2016 AED'000
Customers' deposits	1,375,201	1,223,542
Due to banks and medium term borrowings	192,878	189,422
	1,568,079	1,412,964

6 Income from Islamic financing

	2017 AED'000	2016 AED'000
Murabaha	185,949	125,300
Ijara	124,419	142,814
Mudaraba	2,020	2,852
Wakala	1,428	1,690
Others	7,157	3,868
	320,973	276,524

7 Net fee and commission income

	2017 AED'000	2016 AED'000
Fee and commission income:		
Retail fees	323,659	218,557
Trade related fees	186,133	182,863
Credit related fees	171,843	209,653
Account service charges	90,339	71,679
Brokerage income	5,696	5,561
Others	44,400	37,245
	822,070	725,558
Fee and commission expenses	65,976	57,510
	756,094	668,048

8 Other operating income

	2017 AED'000	2016 AED'000
Rental income	**58,866**	42,383
Expense recoveries	**39,391**	29,813
Other miscellaneous income	**20,485**	26,459
	118,742	98,655

9 Staff costs

The Group's contribution to the pension scheme in respect of UAE national employees amounted to AED 10,418 thousand (2016: AED 7,044 thousand).

The Bank and its subsidiaries operating in the UAE manage VESS for its employees. Employees contribute a certain fixed percentage of their basic salary to VESS and the Group contributes a matching amount. The amounts so collected are managed by the Bank. An employee is entitled to the Group's contribution and income thereon upon completion of a continuous period of employment of three years. During the year, the Group's contribution to VESS amounted to AED 13,195 thousand (2016: AED 12,832 thousand). At 31 December 2017, the funds managed by the Bank on behalf of the VESS amounted to AED 188,140 thousand (2016: AED 168,464 thousand).

10 Other operating expenses

	2017 AED'000	2016 AED'000
Occupancy costs	**126,861**	126,911
Repairs and maintenance	**56,133**	43,260
Legal and professional	**44,206**	45,961
Communication	**30,669**	31,527
Advertising and promotion	**15,115**	21,109
Other miscellaneous expenses	**72,348**	101,801
	345,332	370,569

The above operating expenses include payment of AED 30,720 thousand (2016: AED 561 thousand) made towards social contribution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

11 Impairment charge on financial assets, net

	2017 AED'000	2016 AED'000
Charge on loans and advances	1,089,925	1,091,405
Write backs on loans and advances	(91,862)	(154,103)
Impairment charge on loans and advances	998,063	937,302
Recovery of loans and advances	(192,470)	(214,355)
Impairment release on contingent liabilities	(11,908)	(20,598)
	793,685	702,349

12 Cash and balances with central banks

	2017 AED'000	2016 AED'000
Cash on hand	772,787	547,078
Balances with central banks		
- Deposits and other balances	1,641,239	1,347,344
- Cash reserve deposits	2,732,430	2,471,869
- Certificates of deposit	4,050,000	3,550,000
	9,196,456	7,916,291

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

13 Due from banks

	2017 AED'000	2016 AED'000
Demand	243,628	381,131
Overnight and short term placements	1,502,018	1,775,490
	1,745,646	2,156,621

13 Due from banks *(continued)*

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

	2017 AED'000	2016 AED'000
Due from banks		
AAA to AA -	463,303	235,950
A+ to A -	796,733	1,001,753
BBB+ to BBB -	240,067	457,195
BB+ to BB -	830	291,205
B+ and below	242,764	170,489
Unrated	1,949	29
	1,745,646	2,156,621

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

	2017 AED'000	2016 AED'000
Local banks	940,937	585,680
Foreign banks	804,709	1,570,941
	1,745,646	2,156,621

14 Loans and advances

	2017 AED'000	2016 AED'000
Term loans	61,390,833	61,804,362
Overdrafts	6,905,938	8,341,799
Islamic financing	5,671,577	6,166,729
Others	279,611	258,419
	74,247,959	76,571,309
Impairment allowance:		
Specific	(1,661,797)	(1,331,951)
Collective	(1,448,857)	(1,524,958)
	71,137,305	73,714,400

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

14 Loans and advances *(continued)*

	2017			2016		
	Specific impairment allowance AED'000	Collective impairment allowance AED'000	Total impairment allowance AED'000	Specific impairment allowance AED'000	Collective impairment allowance AED'000	Total impairment allowance AED'000
At 1 January	1,331,951	1,524,958	2,856,909	1,366,942	1,340,971	2,707,913
Charge for the year (net of write backs)	1,071,097	(73,034)	998,063	733,956	203,346	937,302
Amounts written off / transferred	(743,107)	(4,115)	(747,222)	(723,868)	(24)	(723,892)
Foreign currency translation	1,856	1,048	2,904	(45,079)	(19,335)	(64,414)
	1,661,797	1,448,857	3,110,654	1,331,951	1,524,958	2,856,909

Islamic financing

Loans and advances include the following Islamic financing contracts:

	2017 AED'000	2016 AED'000
Murabaha	2,994,016	2,444,016
Ijara	1,997,771	3,106,139
Mudaraba	3,408	37,888
Others	676,382	578,686
	5,671,577	6,166,729
Impairment allowance	(204,769)	(194,550)
	5,466,808	5,972,179

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

14 Loans and advances *(continued)*

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

	2017			2016		
	Specific impairment allowance AED'000	Collective impairment allowance AED'000	Total impairment allowance AED'000	Specific impairment allowance AED'000	Collective impairment allowance AED'000	Total impairment allowance AED'000
At 1 January	130,885	63,665	194,550	138,317	59,808	198,125
Charge for the year (net of write backs)	32,772	647	33,419	43,120	3,881	47,001
Amounts written off / transferred	(23,200)	-	(23,200)	(50,552)	(24)	(50,576)
	140,457	64,312	204,769	130,885	63,665	194,550

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

	2017 AED'000	2016 AED'000
Gross Ijara		
Less than one year	520,208	641,467
Between one and three years	730,212	1,192,735
Between three and five years	434,169	717,149
More than five years	785,542	1,282,045
	2,470,131	3,833,396
Less: deferred income	(472,360)	(727,257)
Net Ijara	1,997,771	3,106,139
Net present value of minimum Ijara payments		
Less than one year	454,108	553,465
Between one and three years	605,724	991,901
Between three and five years	358,161	593,493
More than five years	579,778	967,280
	1,997,771	3,106,139

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

15 Investments

		Non-trading Investments			
	Trading investments	Designated at fair value through profit or loss	Available for sale	Held to maturity	Total
31 December 2017	AED'000	AED'000	AED'000	AED'000	AED'000
Equity instruments:					
Quoted	347	49,148	9,751	-	59,246
Unquoted	-	-	53,795	-	53,795
Debt Instruments:					
Quoted - fixed rate	1,179	-	14,939,531	3,092,840	18,033,550
Quoted - floating rate	-	-	637,493	29,384	666,877
Unquoted - fixed rate	-	-	-	163,843	163,843
Treasury bills	-	-	2,055,865	30,453	2,086,318
Investment in managed funds	-	2,980	-	-	2,980
	1,526	52,128	17,696,435	3,316,520	21,066,609
31 December 2016					
Equity instruments:					
Quoted	129	33,751	9,492	-	43,372
Unquoted	-	-	57,536	-	57,536
Debt Instruments:					
Quoted - fixed rate	3,040	-	11,602,357	1,888,201	13,493,598
Quoted - floating rate	303	-	602,055	201,394	803,752
Treasury bills	-	-	1,351,732	18,025	1,369,757
Investment in managed funds	-	3,306	-	-	3,306
	3,472	37,057	13,623,172	2,107,620	15,771,321

Fair value of held to maturity investments is AED 3,331 million (2016: AED 2,090 million).

The Group has hedged interest rate risks on certain fixed rate available for sale investments through interest rate swaps and has designated these as fair value hedges. The net positive fair value of these swaps was AED 34,263 thousand (2016: net negative fair value of AED 47,346 thousand). The hedge ineffectiveness gains and losses relating to these hedges were included in the consolidated statement of profit or loss.

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

	2017	2016
	AED'000	AED'000
Purchases	23,399	97,202
Sales	24,701	100,085

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

15 Investments *(continued)*

The table below shows the rating wise analysis of investments:

	2017 AED'000	2016 AED'000
Investments:		
AAA to AA -	7,779,504	5,476,327
A+ to A -	5,247,119	3,832,383
BBB+ to BBB -	3,076,219	2,262,194
BB+ to BB -	-	236,681
B+ and below	2,975,723	2,218,314
Unrated	1,988,044	1,745,422
	21,066,609	15,771,321

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 available for sale securities with a fair value amounting to AED 272,191 thousand (31 December 2016: AED 72,838 thousand). The related liability amounting to AED 274,525 thousand (31 December 2016: AED 73,265 thousand) is included in due to banks.

16 Investment properties

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

Plots of land:

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

Apartments / Buildings:

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

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

	2017 AED'000	2016 AED'000
Assets		
Investment properties	2,040,269	2,029,018
	2,040,269	2,029,018

16 Investment properties *(continued)*

The below table shows the movement in investment properties:

	2017 AED'000	2016 AED'000
At 1 January	2,029,018	1,872,569
Additions	38,439	126,481
Transfer from property and equipment	-	1,972
Net (loss) / gain on investment properties	(27,188)	27,996
At 31 December	2,040,269	2,029,018

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

	2017 AED'000	2016 AED'000
Rental income	56,832	40,110
Operating expenses	19,229	10,320

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

Property	Valuation technique	Significant unobservable inputs	Sensitivity
Plots of land	Residual value method	Future cash flows from assets (comprising of selling and leasing rates, future revenue streams, construction costs and associated professional fees, and financing cost, etc.), targeted internal rate of return and developer's risk and targeted profit.	A slight increase/decrease in future cash flows would result to a significant increase/decrease in value.
Apartments/ Buildings	Comparable method	Transactions or current asking prices of similar sites in the immediate vicinity and, if appropriate, applies adjustments to the sales figures based on market research, discussion with independent agents. Value for apartments and retail units adopted after appropriate adjustments ranged from AED 700 to AED 1,450 (2016: ranged from AED 800 to AED 1,500) per square foot and AED 1,675 to AED 3,100 (2016: ranged from AED 1,750 to AED 3,250) per square foot, respectively.	A slight increase/decrease in unit value used would result in a significant increase/decrease in value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

17 Other assets

	2017 AED'000	2016 AED'000
Acceptances	712,585	825,441
Interest receivable	499,087	460,622
Positive fair value of derivatives (Note 31)	203,820	174,380
VESS	188,140	168,464
Investment in associates	107,069	103,624
Profit receivable on Islamic financing	38,701	55,172
Collaterals pending sale	10,119	10,173
Others	192,018	173,901
At 31 December	1,951,539	1,971,777

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

18 Property and equipment

	Capital work in progress 2017 AED'000	Freehold land and buildings 2017 AED'000	Furniture, equipment and motor vehicles 2017 AED'000	Office improvements 2017 AED'000	Computer hardware 2017 AED'000	Computer software 2017 AED'000	Total 2017 AED'000	Total 2016 AED'000
Cost:								
At 1 January	69,541	199,436	97,384	187,929	155,345	207,393	917,028	993,481
Additions	64,592	-	3,422	5,696	3,736	7,497	84,943	110,176
Transfer to investment properties	-	-	-	-	-	-	-	(1,972)
Transfers/adjustments	(78,317)	17,435	9,508	9,411	23,860	18,103	-	-
Translation adjustment	1,909	3,705	1,266	2,359	669	264	10,172	(176,143)
Write off/disposals	(562)	-	(2,257)	-	(7,810)	-	(10,629)	(8,514)
	57,163	220,576	109,323	205,395	175,800	233,257	1,001,514	917,028
Accumulated depreciation:								
At 1 January	-	141,951	70,294	151,997	128,030	144,055	636,327	624,924
Charge for the year	-	4,499	8,258	16,003	14,959	29,151	72,870	76,122
Transfers/adjustments	-	-	-	-	-	-	-	-
Translation adjustment	-	616	813	1,386	493	206	3,514	(60,813)
Write off/disposals	-	-	(2,250)	-	(7,809)	-	(10,059)	(3,906)
At 31 December	-	147,066	77,115	169,386	135,673	173,412	702,652	636,327
	57,163	73,510	32,208	36,009	40,127	59,845	298,862	280,701

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

19 Goodwill

	2017 AED'000	2016 AED'000
Cost		
At 1 January	75,465	184,807
Translation adjustment	5,953	(109,342)
At 31 December	81,418	75,465

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

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

In line with the requirements of IAS 36: *Impairment of Assets*, the management carried out an annual impairment test for goodwill in 2017. The methodology being carried out to test impairment of goodwill is in accordance with the IAS 36. The recoverable amount has been computed as the higher of a cash generating unit (or group of cash generating units) fair value less costs of disposal (FVLCD) and its value in use. The value in use is being measured by discounting the future cash flows expected based on actual operating results by applying an appropriate discount rate, whereas the FVLCD has been computed by applying adjusted market multiples based on comparable banks and recent comparable transactions. For the purposes of internal management reports, UNB – E operations are considered as one cash generating unit.

The main assumptions for the value in use computation are the cash flow estimates, growth rates and the discount rates. The management carried out an impairment test for goodwill in 2017 based on the assumptions that business of UNB-E will grow in line with the strategic plan forecast for five years. The long term growth assumptions are in line with the published industry research. The terminal growth rate of 2% (2016: 2%) has been assumed which is in line with the long term growth rate.

The recoverable amount of goodwill has been calculated based on the value in use. Value in use was determined by discounting the future cash flows expected to be generated. A discount rate of 20% p.a. (2016: 20% p.a.) was used for discounting the cash flows. Discount rates reflect the current market assessment of the risk.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

20 Customers' deposits

	2017 AED'000	2016 AED'000
Time deposits	57,027,858	58,668,300
Current and call deposits	13,687,096	12,221,007
Islamic deposits	5,706,775	4,179,177
Saving accounts	1,583,331	1,763,085
Sundry deposits	684,280	693,259
	78,689,340	77,524,828

Analysis of customers' deposits by sector is as follows:

	2017 AED'000	2016 AED'000
Corporate	29,021,442	33,873,524
Sovereign	26,538,471	26,074,968
Public Sector	13,902,860	8,142,751
Retail	9,226,567	9,433,585
	78,689,340	77,524,828

Islamic deposits include an amount of AED Nil (2016: AED 41,606 thousand) deposited with a subsidiary of the Bank in respect of which the Bank has provided a financial guarantee to the depositor company.

21 Due to banks

	2017 AED'000	2016 AED'000
Overnight and short term placements	349,119	166,004
Deposits	281,381	290,135
Demand	86,546	49,541
	717,046	505,680

22 Medium term borrowings

	2017 AED'000	2016 AED'000
Euro medium term notes	3,742,042	2,628,972
Term loan	2,749,183	2,742,284
	6,491,225	5,371,256

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

22 Medium term borrowings *(continued)*

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

	Maturity	*Fixed/Floating*	*Interest rate*	2017 AED'000	2016 AED'000
Euro medium term notes					
CHF	March 2018	Floating	3 month CHF Libor + 0.98% margin	**376,969**	360,664
JPY	November 2018	Fixed	1%	**81,488**	78,553
USD	October 2021	Fixed	2.75%	**2,192,329**	2,189,755
USD	February 2022	Floating	3 month USD Libor + 1.40% margin	**1,091,257**	-
Term loan					
USD	October 2018	Floating	3 month USD Libor + 0.75% margin	**2,749,182**	2,742,284
				6,491,225	5,371,256

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

The Group has hedged certain portion of term loan bearing floating interest rate risks using interest rate swaps and has designated these swaps as cash flow hedges. The net positive fair value of these swaps was AED 16,253 thousand (2016: net positive fair value of AED 12,872 thousand).

23 Other liabilities

	2017 AED'000	2016 AED'000
Acceptances	**712,585**	825,441
Interest payable	**458,108**	316,650
VESS	**188,140**	168,464
Negative fair value of derivatives (Note 31)	**147,252**	209,682
Gratuity payable	**133,072**	116,429
Staff related provisions	**84,783**	82,271
Payment orders issued	**81,688**	63,057
Profit payable on Islamic deposits	**62,205**	33,966
Expenses payable	**40,666**	34,330
Deferred income	**33,686**	37,631
Provision for contingent liabilities [Note 28(b)]	**10,818**	22,406
Others	**200,991**	244,349
	2,153,994	2,154,676

23 Other liabilities *(continued)*

The Group provides gratuity benefits to its eligible employees in the UAE. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2017 by a registered actuary in the UAE. The present value of the defined benefit obligation, and the related current and past service cost, were measured using the Projected Unit Credit Method.

The following key assumptions were used to value the liabilities:

	2017	2016
Discount rate	2.75% – 3.75% per annum	2.25% - 4.0% per annum
Salary increase rate	5.0% per annum	5.0% per annum

Movements in gratuity payable during the year were as follows:

	2017 AED'000	2016 AED'000
At 1 January	116,429	104,452
Items recognised in profit or loss:		
- Service cost	13,314	12,845
- Interest cost	4,224	3,730
Items recognised in Other comprehensive income:		
- Loss on account of change in assumptions	5,922	5,637
Benefits paid	(6,817)	(10,235)
At 31 December	133,072	116,429

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

	2017		2016	
	+50 bps AED'000	-50 bps AED'000	+50 bps AED'000	-50bps AED'000
Sensitivity to discount rate	(4,199)	4,466	(3,794)	4,039
Sensitivity to salary increase rate	4,435	(4,212)	3,976	(3,773)

24 Share capital

The authorised share capital of the Bank is 5,000,000 thousand shares of AED 1 each (2016: 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 (2016: 2,751,426 thousand shares of AED 1 each).

Cash dividend of AED 0.20 per share amounting to AED 550,285 thousand (2016: 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 8 March 2017 (2016: Annual General Meeting held on 29 February 2016).

The Board of Directors in their meeting held on 06 February 2018 proposed a cash dividend of AED 0.20 per share amounting to AED 550,285 thousand, subject to the approval of the shareholders in the Annual General Meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

25 Legal and statutory reserves

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

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

During the year, the Bank has transferred AED 22,816 thousand (2016: AED 38,884 thousand) to legal and statutory reserves. The transfer in the current year is in respect of subsidiaries.

26 Tier I capital notes

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

The Capital Notes are non-voting, non-cumulative perpetual securities, and are callable subject to certain conditions. The Bank may, at its sole discretion, elect not to make an interest payment. During the year, interest amounting to AED 78,022 thousand was paid (2016: AED 69,028 thousand) and shown in the consolidated statement of changes in equity.

27 Non-controlling interests

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

	2017 AED'000	2016 AED'000
Non-controlling interests share in profit for the year	**12,435**	10,173
Non-controlling interests share in other comprehensive (loss)/income for the year	**13,838**	(6,589)
Accumulated non-controlling interests	**170,392**	162,558
Non-controlling interests share in cash flows for the year	**(82,885)**	117,296

During the year, dividend of AED 6,370 thousand (2016: AED Nil thousand) was paid to non-controlling interests.

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

	2017 AED'000	2016 AED'000
Total Assets	**10,562,170**	8,765,804
Total Liabilities	**8,666,173**	7,043,560
Total Equity	**1,895,997**	1,722,244
Profit for the year	**156,401**	73,925

28 Commitments and contingencies

(a) Loans and advances commitments

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

	2017 AED'000	2016 AED'000
Loans and advances commitments – revocable	11,936,820	11,957,840
Loans and advances commitments – irrevocable	2,471,487	2,980,382
	14,408,307	14,938,222

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

(b) Contingencies

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

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

	2017 AED'000	2016 AED'000
Letters of credit	2,142,403	2,524,517
Letters of guarantee	29,106,444	31,421,280
	31,248,847	33,945,797

The Group has recognised impairment allowance of AED 10,818 thousand (2016: AED 22,406 thousand) on letters of guarantee which has been included in other liabilities.

The movement in impairment allowance for contingencies is as follows:

	2017 AED'000	2016 AED'000
At 1 January	22,406	46,514
Release for the year (net of charges)	(11,908)	(20,598)
Foreign currency translation	320	(3,510)
At 31 December	10,818	22,406

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

28 Commitments and contingencies *(continued)*

(b) Contingencies *(continued)*

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

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

The maturity profile of contingencies at 31 December 2017:

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

The maturity profile of contingencies at 31 December 2016:

	Up to three months	From three months to one year	From one year to three years	From three years to five years	Over five years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
ASSETS						
Letters of credit	607,930	1,840,085	76,502	-	-	2,524,517
Letters of guarantee	5,738,151	18,619,977	5,982,921	786,436	293,795	31,421,280
Total	6,346,081	20,460,062	6,059,423	786,436	293,795	33,945,797

(c) Operating lease commitments

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

	2017	2016
	AED'000	AED'000
Not later than one year	17,798	16,985
Later than one year and not later than three years	20,191	13,810
Later than three years and not later than five years	-	4,095
	37,989	34,890

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

28 Commitments and contingencies *(continued)*

(d) Other commitments

	2017 AED'000	2016 AED'000
Capital expenditure commitments	55,692	31,742
Investment properties commitments	219,338	116,976
	275,030	148,718

29 Taxation

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

	2017 AED'000	2016 AED'000
Consolidated statement of financial position:		
Deferred tax asset	197	1,819
Deferred tax liability	52	-
Consolidated statement of profit or loss:		
Tax expense		
Current year	44,569	59,967
Prior years	515	9,336
	45,084	69,303

UNB – E

As at 31 December 2017, UNB-E is subject to tax of 22.5% (2016: 22.5%) on taxable income in the Arab Republic of Egypt. For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be at 39.43% (2016: 53.11%).

The tax assessment up to 2008 has been finalised with the tax authorities. The tax assessments in respect of the financial years ended 31 December 2009 to 31 December 2016 is yet to be completed by the tax authorities.

29 Taxation *(continued)*

UNB – Qatar

The Branch in the State of Qatar is subject to tax at 10% on taxable income. For the purpose of determining the tax expenses for the year, the accounting profit has been adjusted for items relating to both income and expenses. The average effective tax rate is Nil (2016: Nil) due to losses incurred during the year.

The tax assessment up to the financial year ended 31 December 2015 has been completed by the tax authorities.

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

The tax reconciliation for the year ended 31 December 2017 and 31 December 2016 is as follows:

	2017 AED'000	2016 AED'000
Accounting Profit before taxation as reported by subsidiary/branch	127,321	139,395
IFRS adjustments to profit reported by subsidiary/branch	(9,401)	(10,121)
Total accounting profit	117,920	129,274
Tax calculated on above accounting profit before taxation as reported by subsidiary/branch	27,726	31,476
Tax adjustments:		
- Expenses not deductible for tax purpose	3,412	12,871
- Income not subject to tax	(1,810)	(336)
- Additional tax on Treasury bills and government bonds	13,366	21,555
- Timing difference on account of depreciation and provisions	1,875	(5,599)
- Adjustment pertaining to prior years	515	9,336
	45,084	69,303

30 Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following consolidated statement of financial position amounts:

	2017 AED'000	2016 AED'000
Cash and balances with central banks	9,196,456	7,916,291
Treasury bills	2,086,318	1,369,757
Due from banks	1,745,646	2,156,621
Due to banks	(717,046)	(505,680)
	12,311,374	10,936,989
Less: Original maturities of more than 3 months		
Cash and balances with central banks	3,232,430	4,174,805
Treasury bills	2,085,683	790,331
Due from banks	641,657	183,650
Due to banks	(6,940)	(292,070)
	6,358,544	6,080,273

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

31 Derivatives

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The Group uses the following derivative financial instruments:

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in over-the-counter market.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

The table below shows the contractual value of forward foreign exchange contracts, notional amount of currency swaps and interest rate swaps and fair value of derivative financial instruments as at 31 December 2017 and 31 December 2016.

31 December 2017	Contractual/ notional amount AED'000	Positive fair value AED'000	Negative fair value AED'000	Net fair value AED'000
Derivatives held for trading:				
Forward foreign exchange contracts	10,814,028	25,816	(20,590)	5,226
Interest rate swaps	4,868,355	55,840	(24,518)	31,322
Cross currency swaps	775,767	8,550	(38,748)	(30,198)
FX time options	21,462	-	(1,067)	(1,067)
Commodities – Forwards	-	-	-	-
	16,479,612	90,206	(84,923)	5,283
Derivatives held as fair value hedge:				
Interest rate swaps	7,940,054	97,361	(62,329)	35,032
Derivatives held as cash flow hedge:				
Interest rate swaps	2,387,450	16,253	-	16,253
	26,807,116	203,820	(147,252)	56,568
31 December 2016				
Derivatives held for trading:				
Forward foreign exchange contracts	10,666,650	14,648	(6,172)	8,476
Interest rate swaps	4,876,940	36,497	(28,832)	7,665
Cross currency swaps	959,497	35,419	(51,354)	(15,935)
FX time options	3,339	99	-	99
Commodities - Forwards	173,869	18,493	(18,422)	71
	16,680,295	105,156	(104,780)	376
Derivatives held as fair value hedge:				
Interest rate swaps	5,198,439	56,352	(104,902)	(48,550)
Derivatives held as cash flow hedge:				
Interest rate swaps	2,387,450	12,872	-	12,872
	24,266,184	174,380	(209,682)	(35,302)

The notional amount is the amount of a derivative's underlying asset or liability, reference rate and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor the credit risk.

31 Derivatives *(continued)*

The table below shows the remaining period to maturity of derivative financial instruments as at 31 December 2017:

	Contractual / notional amounts					
	Up to 3 months AED'000	3 months -1 year AED'000	1-3 years AED'000	3-5 years AED'000	Over 5 years AED'000	Total AED'000
Derivatives held for trading:						
Forward foreign exchange contracts	5,590,274	4,860,981	362,773	-	-	10,814,028
Interest rate swaps	-	68,869	367,300	558,423	3,873,763	4,868,355
Cross currency swaps	391,836	144,471	164,988	74,472	-	775,767
FX time options	7,072	554	13,836	-	-	21,462
	5,989,182	5,074,875	908,897	632,895	3,873,763	16,479,612
Derivatives held as fair value hedge:						
Interest rate swaps	161,612	268,129	2,704,438	2,352,391	2,453,484	7,940,054
Derivatives held as cash flow hedge:						
Interest rate swaps	-	2,387,450	-	-	-	2,387,450
Total	6,150,794	7,730,454	3,613,335	2,985,286	6,327,247	26,807,116

The table below shows the remaining period to maturity of derivative financial instruments as at 31 December 2016:

	Contractual / notional amounts					
	Up to 3 months AED'000	3 months -1 year AED'000	1-3 years AED'000	3-5 years AED'000	Over 5 years AED'000	Total AED'000
Derivatives held for trading:						
Forward foreign exchange contracts	7,584,653	1,344,736	1,737,261	-	-	10,666,650
Interest rate swaps	-	398,472	160,694	652,734	3,665,040	4,876,940
Cross currency swaps	99,114	103,856	682,054	-	74,473	959,497
FX time options	-	3,339	-	-	-	3,339
Commodities - Forwards	34,329	139,540	-	-	-	173,869
	7,718,096	1,989,943	2,580,009	652,734	3,739,513	16,680,295
Derivatives held as fair value hedge:						
Interest rate swaps	38,947	155,368	1,561,132	2,173,581	1,269,411	5,198,439
Derivatives held as cash flow hedge:						
Interest rate swaps	-	-	2,387,450	-	-	2,387,450
Total	7,757,043	2,145,311	6,528,591	2,826,315	5,008,924	24,266,184

31 Derivatives *(continued)*

Derivatives held as fair value hedge

The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management strategy by taking offsetting positions in order to reduce its own exposure to fluctuations in exchange and interest rates. The Group uses interest rate swaps, to hedge against the changes in fair value arising from specifically identified interest bearing investments. The net hedge ineffectiveness gain recognised in the consolidated profit or loss amounted to AED 10,045 thousand (2016: loss of AED 4,353 thousand).

Derivatives held as cash flow hedge

The Group uses interest rate swaps to hedge against the cash flow risk arising on floating rate term borrowing. The Group has substantially matched the critical terms of the derivatives to have an effective hedge relationship.

32 Related party transactions

A party is related to the 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.

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.

Directors are expected to avoid any action, position or interest that conflict with an interest of the Group. Details of all transactions in which a Director and/or related parties might have actual or potential conflicts are provided to the Board of Directors for their review and approval. When a potential conflict of interest arises, Directors concerned neither participates in the discussions nor exercise any influence over other members of the Board. If a major shareholder or a Director has any conflict of interests with any matter to be considered by the Board of Director and the Board of Directors determines that such a matter is significant, the decision thereon by the Board of Directors shall be made in the presence of all Directors and in the absence of the interested Director's vote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

32 Related party transactions *(continued)*

The significant balances included in the consolidated financial statements 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
31 December 2017					
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 1 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
31 December 2016					
Due from banks	173,201	10	-	-	173,211
Loans and advances	8,601,730	3,746,409	6,609	-	12,354,748
Investments	4,687,539	-	-	-	4,687,539
Other assets	133,738	32,453	14	-	166,205
Customers' deposits	34,596,957	436,666	492	202,000	35,236,115
Due to banks	376,718	-	-	-	376,718
Other liabilities	200,825	1,521	1	-	202,347
Tier 1 capital notes	2,000,000	-	-	-	2,000,000
Commitments and contingencies	2,520,308	186,615	-	-	2,706,923
Derivatives (contractual / notional amounts)	6,806,275	23,707	-	-	6,829,982
Post-retirement benefits payable	-	-	9,749	-	9,749

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

32 Related party transactions *(continued)*

The significant transactions with related parties included in these consolidated financial statements 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
For the year ended 31 December 2017					
Interest income	**342,606**	**118,397**	**181**	**-**	**461,184**
Profit income	**1,428**	**-**	**-**	**-**	**1,428**
Interest expense	**557,951**	**4,668**	**11**	**-**	**562,630**
Profit expense	**24,130**	**-**	**-**	**3,633**	**27,763**
Net fee and commission income	**27,475**	**2,617**	**9**	**-**	**30,101**
Net gain from dealing in foreign currencies and derivatives	**41,867**	**-**	**-**	**-**	**41,867**
Share in profit of associate	**-**	**-**	**-**	**1,728**	**1,728**
Interest on Tier 1 capital notes	**78,022**	**-**	**-**	**-**	**78,022**
Directors' remuneration	**-**	**7,546**	**-**	**-**	**7,546**
Salary and benefits	**-**	**-**	**34,340**	**-**	**34,340**
Post-retirement benefits	**-**	**-**	**1,802**	**-**	**1,802**
For the year ended 31 December 2016					
Interest income	319,025	110,243	172	-	429,440
Profit income	775	-	-	-	775
Interest expense	472,287	3,674	14	-	475,975
Profit expense	21,096	-	-	-	21,096
Net fee and commission income	47,907	6,585	4	-	54,496
Net gain from dealing in foreign currencies and derivatives	50,003	-	-	-	50,003
Share in profit of associate	-	-	-	2,051	2,051
Other operating expenses	-	60	-	-	60
Interest on Tier 1 capital notes	69,028	-	-	-	69,028
Directors' remuneration	-	8,955	-	-	8,955
Salary and benefits	-	-	32,510	-	32,510
Post-retirement benefits	-	-	1,650	-	1,650

Impairment loss recognised in profit or loss during the year does not include any impairment charge for loans and advances extended to related parties (2016: Nil). At 31 December 2017, there are no impaired loans and advances from the related parties (2016: Nil).

Interest rates on loans and advances to related parties during the year ended 31 December 2017 ranged from 1.3 % to 16.5% per annum (2016: 0.98% to 16% per annum). Interest rates on deposits from related parties during the year ended 31 December 2017 ranged from 0% to 3.25% per annum (2016: 0% to 5% per annum).

Fees and commissions rates on transactions with related parties during the year ended 31 December 2017 ranged from 0% to 3% per annum (2016: 0% to 3% per annum).

33 Operating segments

The Group is organised into following major operating segments:

Corporate Banking offers a wide range of services and products to diverse enterprises and industrial sectors, both in the public and private sectors.

Consumer Banking provides products and services to the Retail, High net worth individuals and SME customers through its focused approach that realises the banking needs and requirements of the customers and includes equity brokerage services, asset management and merchant banking.

Islamic Banking comprises of Islamic Banking Group (ISBG) of the Bank and AWFC. ISBG and AWFC provide Sharia compliant Islamic finance and investment products.

Treasury and Investment Banking comprises of Financial Institutions, Syndications and Structured Finance and Treasury and Investments. Financial Institutions undertakes the correspondent banking business of the Bank and maintains assets of financial institutions. Syndications and Structured Finance provides structured funding solutions on syndicated and project finance transactions and houses the bank's international syndicated assets.

Treasury and Investments provides support to other businesses for funding and foreign exchange and at the same time manages the proprietary positions/trading and liquidity management.

International and unallocated includes UNB-E, overseas branches in Kuwait, Qatar and China and certain unallocated items held centrally in the Head Office as these are not significantly material.

Inter segmental transactions are conducted at rates agreed by management and / or directors. Interest is charged or credited to units and business segments either at contracted or pool rates, both of which approximate the replacement cost of funds.

The following table presents segmental income, expenses, profit and capital expenditure for the year ended 31 December 2017:

	Corporate banking	Consumer banking	Islamic banking	Treasury and Investment banking	International and unallocated	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Net interest income and income from Islamic financing	875,647	993,518	188,647	199,178	389,777	2,646,767
Other operating income	257,858	411,389	108,478	159,937	46,781	984,443
Operating income	1,133,505	1,404,907	297,125	359,115	436,558	3,631,210
Other operating expenses	(199,974)	(582,798)	(95,494)	(71,860)	(112,239)	(1,062,365)
Depreciation	(14,230)	(32,724)	(3,041)	(5,714)	(17,161)	(72,870)
Operating profit	919,301	789,385	198,590	281,541	307,158	2,495,975
Impairment charge on financial assets, net	(325,940)	(422,135)	(19,454)	(3,010)	(23,146)	(793,685)
Income tax expense	-	-	-	-	(45,084)	(45,084)
Profit for the year	593,361	367,250	179,136	278,531	238,928	1,657,206
Segment capital expenditure	255	10,944	1,575	355	85,539	98,668

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

33 Operating segments *(continued)*

The table below presents segmental assets and liabilities as at 31 December 2017:

	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	33,602,405	6,216,021	107,518,104
Reportable segment liabilities	32,629,433	12,456,875	6,627,201	31,411,378	4,926,718	88,051,605

The following table presents segmental income, profit, expenses and capital expenditure for the year ended 31 December 2016:

	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	812,728	1,025,826	179,548	209,172	402,523	2,629,797
Other operating income	257,044	294,988	117,078	167,333	21,174	857,617
Operating income	1,069,772	1,320,814	296,626	376,505	423,697	3,487,414
Other operating expenses	(199,288)	(597,010)	(75,211)	(70,975)	(114,577)	(1,057,061)
Depreciation	(15,277)	(33,436)	(2,625)	(5,808)	(18,976)	(76,122)
Operating profit	855,207	690,368	218,790	299,722	290,144	2,354,231
Impairment charge on financial assets, net	(107,434)	(479,689)	(45,480)	(9,748)	(59,998)	(702,349)
Income tax expense	-	-	-	-	(69,303)	(69,303)
Profit for the year	747,773	210,679	173,310	289,974	160,843	1,582,579
Segment capital expenditure	352	5,283	7,117	990	58,878	72,620

The table below presents segmental assets and liabilities as at 31 December 2016:

	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	39,784,454	17,680,411	8,163,492	32,159,829	6,127,408	103,915,594
Reportable segment liabilities	34,515,415	13,402,516	5,380,854	27,333,750	5,283,905	85,556,440

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

33 Operating segments *(continued)*

The Bank operates in two principal geographic areas i.e. Domestic and International. The United Arab Emirates is designated as Domestic area which represents the operations of the Bank that originates from the U.A.E. branches and U.A.E. subsidiaries; and International area represents the operations of the Bank that originates from its branches in Qatar Financial Centre, Kuwait and China and its subsidiary in Egypt. The Bank's operations and information about its segment assets and liabilities by geographical area are as follows:

	2017			2016		
	Domestic AED'000	International AED'000	Total AED'000	Domestic AED'000	International AED'000	Total AED'000
Net interest income and income from Islamic financing	2,449,488	197,279	2,646,767	2,344,954	284,843	2,629,797
Other operating income	921,116	63,327	984,443	831,645	25,972	857,617
Operating income	3,370,604	260,606	3,631,210	3,176,599	310,815	3,487,414
Other operating expenses	(944,794)	(117,571)	(1,062,365)	(917,389)	(139,672)	(1,057,061)
Depreciation	(59,776)	(13,094)	(72,870)	(61,767)	(14,355)	(76,122)
Operating profit	2,366,034	129,941	2,495,975	2,197,443	156,788	2,354,231
Impairment charge on financial assets, net	(770,538)	(23,147)	(793,685)	(657,317)	(45,032)	(702,349)
Income tax expense	-	(45,084)	(45,084)	-	(69,303)	(69,303)
Profit for the year	1,595,496	61,710	1,657,206	1,540,126	42,453	1,582,579

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

	2017			2016		
	Domestic AED'000	International AED'000	Total AED'000	Domestic AED'000	International AED'000	Total AED'000
Assets	100,560,855	6,957,249	107,518,104	97,681,798	6,233,796	103,915,594
Liabilities	81,827,541	6,224,064	88,051,605	79,848,681	5,707,759	85,556,440

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

33 Operating segments *(continued)*

The following is the analysis of the total operating income of each segment between income from external parties and inter segment.

	External		Inter-segment	
	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000
Corporate banking	1,299,206	1,185,813	(165,701)	(116,041)
Consumer banking	1,526,233	1,485,854	(121,326)	(165,040)
Islamic banking	301,578	291,975	(4,453)	4,651
Treasury and Investment banking	215,611	186,562	143,504	189,943
International and unallocated	288,582	337,210	147,976	86,487
Total	3,631,210	3,487,414	-	-

34 Basic and diluted earnings per share

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

	2017 AED'000	2016 AED'000
Profit for the year attributable to equity holders of the Bank	1,644,771	1,572,406
Less: Interest on Tier I capital notes	(78,022)	(69,028)
Profit for the year attributable to equity holders of the Bank after interest on Tier I capital notes	1,566,749	1,503,378
Shares as at 1 January (Thousand)	2,751,426	2,751,426
Effect of bonus shares issued (Thousand)	-	-
Weighted average number of shares outstanding during the year (Thousand)	2,751,426	2,751,426
Basic and diluted earnings per share (AED)	0.57	0.55

35 Capital management

Capital measurement and allocation

Central Bank of the UAE is the supervisor of the Bank and, in this capacity, receives information on capital adequacy and sets minimum capital requirements. Overseas branches and overseas banking subsidiary are directly regulated by their respective regulators, which sets and monitor their capital adequacy requirements.

As per Circular No. 27/2009 dated 17 November 2009 issued by the Central Bank of the UAE, banks operating in the UAE are required to calculate their capital adequacy ratio as per the Basel II guidelines as implemented by the Central Bank of the UAE. Banks are required to maintain a minimum capital adequacy ratio of 12% as per Central Bank's Notice number 4004 / 2009.

The Group's regulatory capital consists of Tier I and Tier II capital. Tier I capital comprises total equity attributable to equity holders of the Bank except positive cumulative changes in fair value and minority interest less goodwill. Tier II capital comprises eligible amount of subordinated loan, revaluation reserve and collective impairment allowance on loans and advances.

Capital management

The Group's capital resources policy is to maintain its capital base through the diversification of its sources of capital and the efficient allocation of capital. It seeks to maintain at all times a prudent relationship between its total capital, as measured according to the criteria used by Central Bank of the UAE and varied risk of its business.

The Bank and its overseas branches and overseas banking subsidiary have complied with all externally imposed capital requirements throughout all period presented.

There have been no material changes in Group's management of capital during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

35 Capital management *(continued)*

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

	2017 AED'000	2016 AED'000
Capital Base:		
Tier I Capital		
Equity attributable to equity holders of the Bank	19,296,107	18,196,596
Non-controlling interests	170,392	162,558
	19,466,499	18,359,154
Deductions from Tier I capital	(278,196)	(208,473)
Total (a)	19,188,303	18,150,681
Tier II Capital		
Collective impairment allowance on loans and advances	1,448,857	1,524,958
Positive cumulative changes in fair value	116,653	63,543
Deductions from Tier II capital	(53,534)	(51,812)
Total	1,511,976	1,536,689
Eligible Tier II Capital (b)	1,174,750	1,165,968
Total capital base (a) + (b)	20,363,053	19,316,649
Risk-weighted assets:		
Credit Risk	94,063,232	95,134,885
Market Risk	652,767	685,792
Operational Risk	6,444,737	6,386,275
Total risk-weighted assets (c)	101,160,736	102,206,952
Capital adequacy ratio {(a) + (b)} / (c) x 100	20.1%	18.9%

35 Capital management *(continued)*

Basel III Capital Ratio

As per Notice No. 60/2017 dated 2 March 2017 issued by the Central Bank of the UAE, banks operating in the UAE are required to calculate their capital adequacy ratio as per the Basel III guidelines as implemented by the Central Bank of the UAE. Banks are required to maintain minimum capital requirements at three levels, namely Common Equity Tier 1, Tier 1 and Total Capital.

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

	2017
	AED'000
Capital Base:	
Tier I Capital	
Common Equity Tier 1 (CET 1)*	16,740,054
Additional Tier 1 capital (AT 1)	1,790,213
Total (a)	18,530,267
Eligible Tier 2 Capital (b)	1,169,349
Total capital base (a) + (b)	19,699,616
Risk-weighted assets:	
Credit Risk	94,330,905
Market Risk	652,767
Operational Risk	6,444,737
Total risk-weighted assets (c)	101,428,409
Capital adequacy ratio {(a) + (b)} / (c) x 100	19.4%

* Proposed dividend is adjusted while calculating CET 1 capital.

36 Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in these consolidated financial statements, the effect of which are considered immaterial.

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2017

INTRODUCTION

The purpose of these disclosures is to provide the market participants and other key stakeholders with an overview of Group's risk governance framework and key risk metrics from the regulatory perspective in accordance with the Central Bank of the UAE disclosure requirements. The information provided hereunder has been subjected to adequate level of internal control review in accordance with the Group's disclosure standards and consistent with how the senior management and the board of directors assess and manage the risks of the Group. The disclosures which are considered relevant by the management from the materiality aspect and not included in other parts of the annual report are included in this section and complement the accounting disclosures. The Bank and its affiliates and subsidiaries are collectively referred as UNB Group (alternatively 'Group') in this section.

The UNB Group has been on a continuous journey towards excellence to create a strong culture of continual performance improvement and to provide consistently superior services to our customers. With strong enterprise-wide view of risk management and compliance, the Bank has a distinct advantage of having implemented and adopted systems aligned to ISO 31000 risk management standards and Basel guidelines through structured and modular approach that seamlessly integrate the Group's business objectives and risk profile. In this context, the Group has implemented a comprehensive policy framework through well-defined policies and procedures for compliance, risk appetite, stress testing, internal capital adequacy assessment, market and liquidity risk, credit risk, operational risk, whistle-blower information, fraud control, information security, business continuity planning, disaster recovery, anti-money laundering and combating financing of terrorism. Bank's code of ethics that underpins the attributes of the shared core values and integrity forms an integral part of enterprise risk management and employee work culture.

The Group has adopted the capital adequacy standards promulgated by the Central Bank of the UAE (CBUAE) under the Basel framework. The Basel framework is organized under three pillars viz. Pillar 1 – minimum capital requirements; Pillar 2 – supervisory review process; Pillar 3 – market discipline.

The Group computes the Pillar 1 capital adequacy ratio by determining the risk weighted assets for credit, market and operational risks as per the CBUAE guidelines under standardized approach. As at 31 December 2017, the Group's capital adequacy ratio was 19.4% significantly higher than the minimum CBUAE requirement of 10.5%.

Under Pillar 2, the Group undertakes a comprehensive review of potential and material risks through the Comprehensive Capital Assessment Program (CCAP). The Group's CCAP includes assessing the overall risk profile, determining material risks, performing stress testing to shock scenarios that are proportionate to the risk complexities of the Group and allocating capital under Basel Pillar 2 to ensure financial solidity and long term sustainability.

Core principle of capital planning at the Bank is to allow maintenance of ready access to funding, meet Bank's obligations to creditors and other counterparties and continue the profitable credit intermediation business model, in the business as usual as well as in stressful scenario. Enterprise risk and capital planning process requires comprehensive assessment of various risks to which Bank is exposed to and effective risk management processes are in place to manage and mitigate those risks. Prudent, forward looking stress testing forms an integral part of the capital planning process.

Stress testing is an important tool for assessing adverse unexpected outcomes related to a capricious blend of risks, and provides an indication of how much capital might be needed to absorb losses should large shocks occur. The assumption of stress scenarios and the impact on capital and earnings are assessed by the Risk Management Committee, the CEO and the Board Risk Committee. The detailed CCAP report encompassing analysis of different risks not covered under Pillar 1 is reviewed and approved by the Board of Directors prior to submission to the CBUAE. The Group's CCAP and stress testing is subjected to validation during the CBUAE supervisory review process wherein the aspects of risk framework's compliance with the set qualitative criteria and principles are assessed.

RISK MANAGEMENT OVERVIEW

The Group's risk governance structure adopts enterprise-wide integrated 'governance-risk-compliance (GRC)' framework and ensures responsible management and control of the Group with a focus on consistent value creation. The Group's key risk management principle is to protect the financial strength and safeguard the reputation by aligning its risk strategy to achieve sustainable business goals. In accordance with this principle, the Group has established relevant risk management policies, procedures and guidelines; adopts review-tests on an ongoing basis to ensure that all material risks are monitored, assessed, quantified and compared with the risk appetite norms and undertakes balanced risk treatment measures that are proportionate and appropriate to achieve the Group's Vision and medium term business goals.

RISK MANAGEMENT OVERVIEW *(continued)*

The Board and senior management remain committed to increasing shareholders' value by developing and growing the business within the established risk appetite guidelines and are conscious of achieving this objective while upholding the priorities and interests of multiple stakeholders. The Group's risk management approach seeks to limit adverse variations in earnings and capital by managing risk exposures within the levels of risk tolerance by limiting potential losses that could arise from stress events and ensuring continued adequacy of all financial resources with robust contingency plans.

The Group's GRC framework integrates the local regulatory guidelines, sound principles and practices of Basel Committee guidelines, and other industry standards in managing the business risks by ensuring that:

- Risks are identified, monitored, understood and effectively managed
- Risks are within the tolerance levels established through reporting and assurance process involving business-line management, compliance and enterprise risk function, management committees, board committees and the board of directors
- Risk taking decisions are consistent with the business objectives, explicit and clear
- Expected returns are commensurate with and adequately compensate for, the risks undertaken
- Capital allocation is consistent with risk exposure
- Risk taking, risk assessment and risk control functions are separate from each other with defined segregation of duties and independent reporting lines

The aim of the Group's risk management policy is to optimize the 'risk - return trade – off' by either maximizing the return for a given level of risk or minimizing the risk required for a desired level of return.

The concern for and tone of, risk management in the Group is set at the top, at the Board level and becomes the basis of the way the Group conducts its business. The Group's governance practices and high level controls are delineated in the Corporate Standards Manual. The Group's risk management organization remains effective to manage various risks through prudent risk taking and proactive risk response decisions by various management committees that are guided by relevant policies approved by the Board.

The Group's risk management culture promotes, continuous monitoring of the risk environment and integrated evaluation of risks and their interaction, to assess the enterprise wide risk profile.

The Group examines its risk profile to ensure that its capital level is:

- above the minimum regulatory capital threshold, taking into consideration the operating environment and the strategy of the Group
- sufficient to withstand certain internally defined stress scenarios and economic down-turn forecasts
- sufficient to support the Group's strategic objectives and operational goals

The Group recognizes the business opportunities of digital transformation and innovation in the financial services while understanding and adopting appropriate system security tools and processes to manage the associated information security risks therein. The Group is cognizant of the information security risks in the business environment and considers it as one of the top priority risks for continuing management along with credit and liquidity risks.

RISK MANAGEMENT STRATEGY

The underpinning of the Group's risk management strategy is to protect the financial strength and safeguard the reputation while prudent risk-taking remains an integral part of the Group's business.
The Group's risk management strategy is therefore founded on the following principles, which applies across all businesses and risk categories.

- Protection of financial strength: Careful monitoring and controlling of risks in order to limit the impact of potentially adverse events on capital and income streams and ensuring that risk appetite is consistent with financial resources.
- Safeguarding of reputation: The value of Group's franchise depends on reputation. The management and employees are committed to maintaining and upholding the good reputation of the Group with a very low appetite defined for reputational risks.

RISK MANAGEMENT STRATEGY *(continued)*

- Risk transparency: The Group's risk culture ensures that risks are well understood by the management and staff, balanced against business goals and communicated to all the stakeholders.
- Management accountability: Business-line management own the comprehensive risks that are assumed in the execution of their operations, assume responsibility for the pro-active management of risk exposures within the risk appetite guidelines set by the Board, and ensure that return generated are commensurate with the risks undertaken.

RISK APPETITE

Risk appetite is an expression of the maximum level of risk that the Group is prepared to accept in the normal course of business to deliver its strategic and financial objectives. The Group makes detailed analysis of its portfolio and takes inputs from relevant stakeholders to arrive at a risk appetite level that has been evolved over the past few years.

The Board has established well-articulated risk appetite guidelines through various risk policies, including a risk appetite policy that provides guidance on all material risks to maintain the financial solidity of the Group on a sustainable basis. The Group monitors its overall risk positioning vis-à-vis the risk appetite through internally developed risk metrics. The Group's overall risk profile in 2017 remained consistently within the risk appetite guidelines under the various parameters set out as part of the CCAP.

The Bank measures and reviews the risk profile status on quarterly basis through an internal risk index scale that reckons various risk factors with proportionate level of granular indicators within, and assessing the risk through a mix of qualitative, quantitative and expert judgement of probability and impact on solvency and profitability. Thus the Bank's risk positioning is assessed taking into consideration of the past trend, current status and reasonable future estimates.

RISK EXPOSURES AND ASSESSMENT

BUSINESS RISK

Business risk is the current and prospective risks to earnings and capital arising from the adverse changes in the competitive environment that infringes the Group's operational economics of doing business. Business risk consists amongst others reputational, strategic, regulatory, operational, credit, market, interest rate, liquidity, cyber security and legal risks. The Group reckons business risk by assessing the volatility of gross income and expenses and maintains it in line with the risk appetite norms.

REPUTATIONAL RISK

Reputational risk is the current and prospective risk to earnings and capital arising from the adverse perception of brand/image of the Group by customers, counter parties, shareholders, regulators and rating agencies.

The Board and the management of the Group consider that this risk can have a contagion effect on other risks, and hence is highly conscious of managing the same proactively in an effective and transparent manner. The Group has very low risk appetite towards reputational risk and adopts appropriate measures of transparency and disclosure to maintain strong brand image and franchise value.

Various awards and recognition conferred on the Group reinforces the commitment of the Group to Quality and Service Excellence as also to uphold its reputation. Details of some of the noteworthy awards and recognition won by the Bank in 2017 are included in the Chief Executive Officer's Review Report which is part of the Annual Report.

STRATEGIC RISK

Strategic risk is the current and prospective risks to earnings and capital arising from the changes in the legal and regulatory environment, adverse business decisions, improper or non-implementation of decisions and lack of response to changes in the business environment.

The Group has a dedicated function to monitor compliance with the strategies laid out for achieving the stated objectives. Progress status is assessed for initiating any corrective action that may be necessary for achieving the objectives. Through regular reporting, evaluation and action, Group's senior management ensures that the strategic risks are proactively identified and prudently managed and kept to the minimum level as possible.

COMPLIANCE RISK/REGULATORY RISK

Regulatory risk is the current and prospective risk to earnings and capital arising from the violations or non-compliance to laws, regulations, agreements, ethical standards and preferred business practices. This risk has adverse impact on the Group's reputation, franchise, business opportunities, growth as well as expansion potential and competitiveness. The Group is subject to extensive supervisory and regulatory regimes in all businesses and jurisdictions in which it operates.

While the Board and the senior management remain responsible for overseeing the management of the Group's regulatory risk, a dedicated and independent Compliance function as a part of independent compliance and enterprise risk framework, actively engages with the management and reporting officers within business units and subsidiaries to ensure that adequate internal controls are developed and implemented to comply with all regulatory guidelines. The Board and the senior management consider combating financial crime risks and adopting appropriate compliance requirements are critical to protect the Group's reputation.

The Group's compliance framework encompasses robust control towards anti-money laundering and combating financing of terrorism, adopting and monitoring international sanctions compliance program, and adherence to extra-territorial compliance obligations arising from Group's businesses across various jurisdictions. The Group has established policies, procedures and uses appropriate information technology systems to monitor and manage such risks. The Group has established robust compliance program for USA-Foreign Accounts Tax Compliance Act (FATCA) compliance and Common Reporting Standards (CRS) compliance with well delineated operating procedures and processes. The Bank is well prepared for introduction of the UAE -Value Added Tax (UAE-VAT) compliance obligation effective from January 2018. During the year 2017, the Bank performed independent assessment of the AML/Sanctions compliance framework by engaging a reputed external consultant.

Dedicated units exist for preparing prudential returns and other regulatory information, to ensure timely submission. The Group ensures that management and staff are kept informed of regulatory developments and trained as necessary on all relevant aspects.

The Group is subjected to various examinations / reviews from the external stakeholders' viz. the CBUAE, Abu Dhabi Accountability Authority and other regulatory authorities of the overseas branches and subsidiaries. The observations issued by the regulatory and statutory bodies and management actions towards adopting the recommendation cited therein are assessed and monitored by the Board.

The Bank did not encounter any material regulatory risk issue during the fiscal 2017 and overall AML/Sanctions risk profile continues to remain Low risk.

OPERATIONAL RISK

The Group has established operational risk management policy and appropriate procedures for managing operational risks. The Group's operational risk framework and processes have been embedded and integrated across the enterprise with well-defined and matured processes of Risk and Control Self-Assessment (RCSA) for various business units that are proportionate and appropriate to the nature of business units' inherent and granular risk complexities. The Group has built internal operational loss data base through clearly defined operational risk event reporting process that is robust to capture any operational risk and loss events and to take up appropriate risk treatment measures in a timely manner. The Bank has been using an operational risk management system for enterprise wide operational risk reporting and monitoring processes. Bank has a very low risk appetite for operational risks. Fraud risks are assessed as a part of Group's operational risk framework which includes both internal and external frauds. Further near-miss operational risk events are captured and prudent remediation measures taken to avoid recurrence through an effective incident reporting and root-cause analysis framework. The actual operational losses incurred and the potential operational losses recognized for the fiscal 2017 are immaterial.

BUSINESS CONTINUITY MANAGEMENT

The Group adopts a holistic business continuity management system (BCMS) that identifies potential threats, the impacts of these threats to business operations and provides a framework for effective response.

The Group's BCMS framework is built around the policy of continually striving to reduce the likelihood, shorten the impact of business interruptions if any and aim at ensuring economic existence of the Group even under extreme calamity situations. The framework identifies activities that support the delivery of the Group's key products and services by ascertaining on a periodic basis their maximum tolerable period of disruption, dependencies, recovery time objective and recovery point objective through robust business impact analysis process.

The Group's BCMS system is compliant to international best practices and is certified to ISO 22301 standards. The Group's BCMS is tested annually under various scenarios and the latest full scale test did not result in any material issues.

CREDIT RISK

Group's credit culture is dedicated to achieving and maintaining risk assets of high quality. This requires commitment to soundness, prudence, professionalism and discipline in applying a consistently high standard of credit management. A strong universal credit culture is practiced to ensure the successful control and management of risk, seeking to minimize credit losses while enhancing risk-adjusted returns, thus contributing to the overall success of the Group.

Please refer to Note 3.1 of the consolidated financial statements for further details on the credit risk measurement and treatment including definition of past dues and impaired and on approaches followed for specific and general allowances.

Hedging and mitigation of credit risk for risk management purposes is covered in the Group's credit risk policies. The Group mitigates credit risk through the adoption of both proactive preventative measures (e.g. controls and limits) and the development and implementation of strategies to assess and reduce the impact of particular risks, should these materialize (e.g. taking collateral and hedging).

The Bank has established strong credit management framework with well-defined criteria for internal credit rating grades for corporate customers, determining risk rating at the borrower level, evaluating the portfolio level probability of default (PD) and loss given default (LGD), evaluating risk scores at borrower level for retail customers and determining portfolio level PD and LGD therefor through well calibrated risk models. The Bank has engaged reputed external consultants to calibrate such credit risk models which are periodically assessed.

The Group assigns the credit risk weight to counterparties exposure based on the ratings assigned to the counterparty by the ECAIs. Furthermore, CBUAE has also provided the mapping of the ratings and risk weight for each rating mapping. As per the guidelines from the CBUAE, banks are required to select ECAIs and their ratings consistently for each type of claims for both risk weighting and risk assessment purposes. The banks are not allowed to cherry pick assessment provided by different ECAIs and must disclose the process. The Group uses the rating provided by the leading ECAIs (Moody's/Fitch/Capital Intelligence) to risk weight the debt of counterparties from Banking, Corporate (including GRE) and Government sector. In accordance with the CBUAE guidelines, if the counterparty is rated by only one of the recognized rating agencies then rating of that agency is considered. However, if the counterparty is rated by two ECAIs, which maps into different risk weights, the higher risk weight is applied. Furthermore, if the counterparty is rated by three ECAIs and the risk weight differs for all the three ratings, then the Group uses the middle risk weight.

CONCENTRATION RISK

The Group adopts a prudent risk centric approach for managing concentration risk arising from credit assets, investment exposures and funding liabilities. The credit concentration is also assessed and managed from obligor, sectoral and risk grade perspective to ensure and maintain sufficient portfolio granularity across different risk dimensions.

The Group adopts the regulatory large exposure guidelines towards managing obligor concentration risk while sector concentration risk is managed in line with industry benchmarks and business strategy. The Bank ensures sufficient diversification in its investment portfolio through internal risk limits.

The Group manages funding concentration with care by adopting diversification strategy as part of overall liability management strategy while prudently evaluating the retention behavior and strategic nature of depositors.

The Group estimates potential impact of concentration risk on its solvency position under the CCAP in line with international best practices by allocating additional capital as an additional mitigation tool when appropriate.

With a view to concentration risk, the Group has established internal guidance limits over and above regulatory limits in line with the leading risk management practices. These guidance limits are being used by the management for reviewing asset liability position and deciding changes in business strategy if and when required.

SOVEREIGN RISK

The Group manages its sovereign risk as a part of credit risk. Sovereign risk limits are established for each country based on various credit risk parameters including but not limited to ratings assigned by the ECAIs.

RESIDUAL RISK

Residual risk represents primarily those risks, where the risk mitigation techniques proved less effective than expected in the past. The Group uses cash taken from customer either in the form of collateral or margin as credit risk mitigant (CRM) while computing minimum regulatory capital requirements. Cash used as CRM is held by the Group and there is virtually no risk in enforcing the same for recovering overdue amount from the customer.

RESIDUAL RISK *(continued)*

In addition to cash, financial guarantees given by financial institutions on behalf of customers are utilized to offset part of the risk and thereby reducing the capital requirement. If a better rated financial guarantee is provided by the counterparty which is rated or not rated by approved ECAIs the ratings of the customer is replaced by the ratings of the Guarantors. The Group considers the guarantees as eligible credit risk mitigant, only if the guarantees are direct, explicit, irrevocable and unconditional. Where the guarantor and/or the borrower is/are not rated by an approved ECAI, the Group accepts such guarantee for its internal assessment. Further, the Group has in place adequate controls around the process of managing all forms of collateral and the same are regularly reviewed. By adopting adequate controls and ensuring independence of the units enforcing the controls, the Group is able to manage its risk of timely enforcement of all forms of credit risk mitigant used in the capital adequacy ratio computation. The Group during FY 2017 did not use netting as a risk mitigant. Further details on collaterals including main types of Guarantors (and allied creditworthiness) and concentration are provided in Note 3.1 of the consolidated financial statements.

Counterparties which are not rated by any of the recognized rating agencies are treated as unrated and risk weight assigned accordingly. The internal credit ratings determined by the Group for the counterparties are not used for calculation of risk weighted assets, as the Group follows standardized approach in accordance with the regulatory guidelines.

MARKET RISK

The Group generates market risk in the normal course of its banking business and this risk is substantially mitigated with external counterparties. The Group engages to a limited extent in proprietary risk-taking, but does not seek to generate a material proportion of its earnings from this activity and has a low tolerance for earnings volatility arising from trading risk.

The Group has established a detailed market risk management policy approved by the Board. The Group's overall market risk appetite is determined as a percentage of market risk weighted assets to total risk weighed assets as per risk weights determined under the Basel standardized approach. The Group monitors and manages market risk through various portfolio level risk measures viz. value at risk, duration, stop loss limits, position limits and concentration limits. Treasury remains the first line of defense for managing market risk within various limits defined by the Bank. An independent middle office tracks various positions and reports on limit breaches if and when they occur on a real time basis. Any breach is rectified or a ratification obtained by the Treasury. Bank's enterprise risk function independent of treasury and middle office tracks overall market risk profile of the Bank and advices corrective action as required. Further details on market risk and investment exposures are provided under Note 3.3 and 15 of the consolidated financial statements respectively. During 2017 the Group's market risk profile consistently remained within the risk appetite levels.

As at 31 December 2017, the Group's total equity investment portfolio in the banking book amounted to AED 112.7 million of which AED 58.9 million represents quoted investments. For details of the accounting policies and valuation methodology, please refer to Note 2 (e) to the consolidated financial statements. Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons are provided under quantitative disclosures.

INTEREST RATE RISK

Interest rate risk in banking book (IRRBB) refers to the current or prospective risk to the Group's capital and earnings arising from adverse movements in interest rates that affect the Group's banking book positions.

The Group manages interest rate risk in the banking book through monitoring the interest rate sensitive gaps of assets and liabilities. The ALCO frequently monitors changes in the Bank's interest rate position and advises both short term tactical and long term strategic changes in line with prevailing economic environment and future expectations.

The impact on the cash flows and economic value is calculated using net interest income (NII) & economic value of equity (EVE) approaches using a parallel yield curve rate shock of minimum 200 bps under pillar 2 IRRBB assessment. The Group additionally uses a 300bps shock on interest rate gaps for capital estimation under a stressed economic environment.

The Group has prudent risk management policies with internal risk guidance limits to ensure the risk is maintained within risk appetite. Please refer to note number 3.3.1 of the consolidated financial statements for details on interest rate risk

LIQUIDITY RISK

Funding and liquidity decisions are made on the basis of an in-depth understanding of the Group's current situation (business environment, strategy, balance sheet and liquidity situation), of the businesses' future liquidity needs (liquidity projections), and of the availability and situation of funding sources. The aim is to ensure that the Group maintains optimal levels of liquidity to cover its liquidity requirements in the near and long term, using stable funding sources, so as to optimize the income statement impact of the cost.

RESIDUAL RISK *(continued)*

Please refer to note number 3.2 of the consolidated financial statements for further details on liquidity risk. In addition to the details provided therein, the Group uses cash-flow stress testing as part of its control process to assess liquidity risk. The Group conducts stress testing on the balance sheet gap by incorporating appropriate adjustments based on certain assumptions like impact of haircuts on liquid assets, non-performing loans, deposits retention ratio and off-balance sheet commitments, etc. The Group monitors and manages the liquidity in the UAE through maintaining comfortable level of advances to stable resources ratio and eligible liquid assets ratio as stipulated by the CBUAE and adopts residual and behavioral approaches while measuring liquidity risk. The Group has also established a detailed liquidity contingency plan.

The Group has established a process to compute and monitor the Basel III liquidity ratios viz. liquidity coverage ratio and net-stable funding ratio and ensuring compliance to the interim regulations stipulated by the Central Bank of the UAE.

PROPERTY AND INVESTMENT RISK

Property and investment risk is the current and prospective risks arising from the properties owned by the Group and long-term investments in subsidiaries, associates and other investments. The Group's property or investment risks are managed through periodic valuation and appropriate accounting. The risk attached to volatility in all other investments is assessed as a part of Market Risk.

SECURITIZATION RISK

The Group does not have any securitization transaction in the books.

INFORMATION SECURITY & CYBER RISK

The Group has established appropriate cyber security & risk management program to combat growing cyber threats and manage the cyber risks impacting the Group. The Group Information Security Policy & Standards are in alignment with industry standards ISO ISMS 27001:2013 and ensures compliance to latest Payment Card Industry Data Security Standards.

The Group has put in place a cyber security strategy including cyber security Incident management & response program to address any potential cyber security risks and has established a continuous security monitoring program to identify & respond to internal & external information security threats.

Regular internal & external security assessments program including independent third party penetration testing/security assessments are being undertaken to manage and mitigate risk on an ongoing basis. The Bank has established sophisticated cyber security management tools and system to ensure cyber risk resilience.

During the 2017 the Group did not encounter any critical information security risk incident.

BASEL REVIEW AND STRESS TESTING

The Group has established a well-defined stress testing policy approved by the Board that covers the methodology and calibration of shocks. The Group performs stress testing by reckoning the idiosyncratic and macroeconomic scenarios at half-yearly intervals. The results of the stress testing are reviewed at the senior management level and considered for strategic business and capital management decisions. The annual CCAP for fiscal 2017 reinforces the Group's strong capital position and financial strength to support additional risk taking capacity in line with business projection and associated risk estimate over a forward looking three year time horizon. Further during 2017, the Bank carried out a comprehensive stress testing on the static balance sheet, in accordance with the regulatory guidance, over the three year time horizon between 2017 and 2019; the results derived through assessment indicate the Group's loss absorption capacity and solvency strength remains intact with the stress scenario capital adequacy ratio is well above regulatory stress scenario hurdle rate.

SIGNIFICANT REGULATORY DEVELOPMENT

During 2017 the Central Bank of the UAE advised all the banks to undertake quantitative impact assessment and their preparedness to adopt IFRS 9 standard effective from 2018. The Group has undertaken the assessment and is prepared to adopt the standards as they become applicable.

The Bank has established appropriate system tools and operational process to implement and comply with the UAE's value added tax, effective January 2018.

QUANTITATIVE DISCLOSURES

The quantitative disclosures are provided in the succeeding pages.

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2017

CONSOLIDATED CAPITAL STRUCTURE – BASEL II

	31 December 2017		31 December 2016	
	AED'000	AED'000	AED'000	AED'000
Tier 1 Capital:				
1. Paid up share capital		2,751,426		2,751,426
2. Reserves				
a. Legal & statutory reserve	2,774,315		2,751,426	
b. Special reserve	-		-	
c. General reserve	73,944		60,958	
d. Other reserve	(816,215)		(852,315)	
e. Retained earnings	12,395,984		11,421,558	
		14,428,028		13,381,627
3. Non-controlling interest in the equity of subsidiaries		170,392		162,558
4. Innovative capital instruments – Tier I capital notes		2,000,000		2,000,000
5. Other capital instrument		-		-
6. Surplus capital from insurance companies		-		-
		19,349,846		18,295,611
Less: Deduction for regulatory calculation				
a. Goodwill and other adjustments	(108,008)		(93,118)	
b. Investment in associates	(53,535)		(51,812)	
		(161,543)		(144,930)
Tier 1 Capital – Subtotal (a)		19,188,303		18,150,681
Tier 2 Capital:				
1. Subordinated loan	-		-	
2. Revaluation reserves	116,653		63,543	
3. Collective impairment allowance	1,448,857		1,524,958	
		1,565,510		1,588,501
Eligible Tier 2 Capital:				
1. Subordinated loan	-		-	
2. Revaluation reserves	52,494		28,594	
3. Collective impairment allowance	1,175,790		1,189,186	
		1,228,284		1,217,780
Less: Deduction for regulatory calculation				
a. Investment in associates	(53,534)		(51,812)	
		(53,534)		(51,812)
Eligible Tier 2 Capital – Subtotal (b)		1,174,750		1,165,968
Total eligible capital after deductions		20,363,053		19,316,649

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2017

CAPITAL ADEQUACY – BASEL II

	31 December 2017		31 December 2016	
	AED'000	AED'000	AED'000	AED'000
Capital requirement:				
1. **Credit risk**				
a. Standardized approach	11,287,588		11,416,186	
b. Foundation IRB	-		-	
c. Advance IRB	-		-	
	-	11,287,588		11,416,186
2. **Market risk**				
a. Standardized approach	78,332		82,295	
b. Models approach	-		-	
		78,33		82,295
3. **Operational risk**				
a. Basic Indicator Approach	-		-	
b. Standardized Approach/ASA	773,368		766,353	
c. Advanced Measurement Approach	-		-	
		773,368		766,353
Total capital requirement		12,139,288		12,264,834
Capital ratio:				
a. Total for Union National Bank Group		20.1%		18.9%
b. Tier 1 ratio only for Union National Bank Group		19.0%		17.8%

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2017

INFORMATION ON SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

		Ownership (%)			
Subsidiaries	Country of incorporation	2017	2016	Description	Accounting treatment
Al Wifaq Finance Company PrJSC	U.A.E.	89.2%	89.2%	Shari'a compliant Islamic finance products and services	Full consolidation
Union Brokerage LLC	U.A.E.	99.6%	99.0%	Equity brokerage services	Full consolidation
Union National Bank, Egypt	Egypt	96.6%	96.6%	Commercial banking services	Full consolidation
Injaz Marketing Management LLC	U.A.E.	98.6%	98.0%	Marketing management services	Full consolidation
Al Wifaq Properties LLC	U.A.E.	87.4%	87.4%	Property management services	Neither consolidated nor deducted (investment is risk weighted)
Significant investments					
Arab Orient Takaful Insurance Company	Egypt	19.3%	19.3%	Insurance services	Neither consolidated nor deducted (investment is risk weighted)
Orient UNB Takaful PJSC	U.A.E.	47.5%	47.5%	Insurance services	Neither consolidated nor deducted (investment is risk weighted)

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2017

CONSOLIDATED CAPITAL STRUCTURE – BASEL III

Details		Amount
Capital Base		
1	Common Equity Tier 1 (CET1) Capital	
1.1	Share Capital	2,751,426
1.2	Share premium account	-
1.3	Eligible Reserves	2,050,832
1.4	Retained Earnings / (-) Loss	11,845,698
1.5	Eligible amount of minority interest	170,392
1.6	Capital shortfall if any	-
	CET1 capital before the regulatory adjustments and threshold deduction	16,818,348
1.7	Less: Regulatory deductions	78,294
1.8	Less: Threshold deductions	-
	Total CET1 capital after the regulatory adjustments and threshold deduction	16,740,054
	Total CET1 capital after transitional arrangement for deductions (CET1) (a)	16,740,054
2	Additional Tier 1 (AT1) Capital	
2.1	Eligible AT1 capital (After grandfathering)	1,800,000
2.2	Other AT1 Capital e.g. (Share premium, minority interest)	-
	Total AT1 capital	1,800,000
	Total AT1 capital after transitional arrangements (AT1) (b)	1,790,213
3	Tier 2 (T2) Capital	
3.1	Tier 2 Instruments e.g. subordinated loan (After grandfathering and/or amortization)	-
3.2	Other Tier 2 capital (including General Provisions, etc.)	1,179,136
	Total T2 Capital	1,179,136
	Total T2 capital after transitional arrangements (T2) (c)	1,169,349
	Capital Base { (a) + (b) + (c) }	19,699,616

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2017

CAPITAL ADEQUACY – BASEL III

Capital Requirements		RWA	AED'000 Capital Charge
1	Credit Risk – Standardized Approach	94,330,905	9,904,745
2	Market Risk – Standardized Approach	652,767	68,541
3	Operation Risk	-	-
	a. Basic Indicator Approach		
	b. Standardized Approach/ASA	6,444,737	676,697
	c. Advanced Measurement Approach	-	-
	Minimum Capital Requirements	101,428,409	10,649,983
	Capital Conservation Buffer @ 1.25%	-	1,267,855
	Total Capital Requirements	101,428,409	11,917,838
	Capital Ratio		
	a. Total for Union National Bank Group		19.4%
	b. Tier 1 ratio for Union National Bank Group		18.3%
	c. CET1 ratio for Union National Bank Group		16.5%

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2017

CREDIT EXPOSURE BY CURRENCY TYPE

					Credit Equivalent				
	Loans AED'000	Debt securities AED'000	Others AED'000	Total funded AED'000	Commitments AED'000	OTC Derivatives AED'000	Other off balance sheet exposure AED'000	Total non- funded AED'000	Total AED'000
31 December 2017:									
UAE Dirham	51,362,521	-	9,633,025	60,995,546	418,399	216,443	9,900,786	10,535,628	71,531,174
Foreign currency	21,223,641	20,950,588	4,807,985	46,982,214	817,345	430,973	6,811,836	8,060,154	55,042,368
	72,586,162	20,950,588	14,441,010	107,977,760	1,235,744	647,416	16,712,622	18,595,782	126,573,542
31 December 2016:									
UAE Dirham	49,993,770	-	8,586,745	58,580,515	362,751	215,200	10,161,457	10,739,408	69,319,923
Foreign currency	25,245,588	15,667,107	4,775,475	45,688,170	1,127,440	389,926	7,233,304	8,750,670	54,438,840
	75,239,358	15,667,107	13,362,220	104,268,685	1,490,191	605,126	17,394,761	19,490,078	123,758,763

Note: *Previous year comparative numbers are as per Basel II*

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2017

CREDIT EXPOSURE BY GROGRAPHY

					Credit Equivalent				
	Loans AED'000	Debt securities AED'000	Others AED'000	Total funded AED'000	Commitments AED'000	OTC Derivatives AED'000	Other off balance sheet exposure AED'000	Total non- funded AED'000	Total AED'000
31 December 2017:									
United Arab Emirates	**67,448,232**	**12,019,201**	**12,621,215**	**92,088,648**	**1,029,538**	**462,377**	**15,115,274**	**16,607,189**	**108,695,837**
GCC (excluding UAE)	**1,605,653**	**2,343,101**	**200,057**	**4,148,811**	**86,178**	**-**	**369,506**	**455,684**	**4,604,495**
OECD Countries	**2,853**	**1,470,107**	**196,860**	**1,669,820**	**-**	**180,251**	**224,780**	**405,031**	**2,074,851**
Others	**3,529,424**	**5,118,179**	**1,422,878**	**10,070,481**	**120,028**	**4,788**	**1,003,062**	**1,127,878**	**11,198,359**
	72,586,162	**20,950,588**	**14,441,010**	**107,977,760**	**1,235,744**	**647,416**	**16,712,622**	**18,595,782**	**126,573,542**
31 December 2016:									
United Arab Emirates	69,653,489	9,521,814	11,052,012	90,227,315	1,334,579	390,092	15,962,926	17,687,597	107,914,912
GCC (excluding UAE)	2,728,441	1,899,556	397,115	5,025,112	94,626	3,612	471,897	570,135	5,595,247
OECD Countries	3,127	719,014	730,938	1,453,079	-	205,421	310,183	515,604	1,968,683
Others	2,854,301	3,526,723	1,182,155	7,563,179	60,986	6,001	649,755	716,742	8,279,921
	75,239,358	15,667,107	13,362,220	104,268,685	1,490,191	605,126	17,394,761	19,490,078	123,758,763

Note: *Previous year comparative numbers are as per Basel II*

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2017

CREDIT EXPOSURE BY INDUSTRY SEGMENT

					Credit Equivalent				
	Loans AED'000	Debt securities AED'000	Others AED'000	Total funded AED'000	Commitments AED'000	OTC Derivatives AED'000	Other off balance sheet exposure AED'000	Total non-funded AED'000	Total AED'000
31 December 2017:									
Financial institutions	9,240,890	7,800,281	2,879,312	19,920,483	104,567	557,169	1,908,056	2,569,792	22,490,275
Sovereign	4,651,401	9,068,191	8,423,669	22,143,261	-	24,450	9,022	33,472	22,176,733
Consumer	20,406,054	-	-	20,406,054	-	-	82,899	82,899	20,488,953
Construction	3,902,347	-	34	3,902,381	300,638	7,653	10,265,476	10,573,767	14,476,148
Real estate	10,891,766	979,492	2,054,575	13,925,833	3,466	-	39,970	43,436	13,969,269
Service	6,917,420	807,397	3,829	7,728,646	296,059	9,204	1,292,755	1,598,018	9,326,664
Trade	4,744,362	169,641	-	4,914,003	160,650	9,129	1,178,746	1,348,525	6,262,528
Energy	4,252,542	1,661,786	14	5,914,342	250,336	36,356	24,655	311,347	6,225,689
Manufacturing	3,382,826	463,800	4,728	3,851,354	-	3,455	1,027,761	1,031,216	4,882,570
Others	4,196,554	-	1,074,849	5,271,403	120,028	-	883,282	1,003,310	6,274,713
	72,586,162	20,950,588	14,441,010	107,977,760	1,235,744	647,416	16,712,622	18,595,782	126,573,542
31 December 2016:									
Financial institutions	10,930,193	5,550,576	2,827,034	19,307,803	215,226	487,630	2,075,708	2,778,564	22,086,367
Sovereign	5,681,443	6,600,301	7,369,957	19,651,701	-	39,904	10,791	50,695	19,702,396
Consumer	16,607,802	-	-	16,607,802	-	-	83,666	83,666	16,691,468
Construction	4,737,570	-	-	4,737,570	476,008	13,657	10,722,103	11,211,768	15,949,338
Real estate	12,174,270	387,409	2,044,869	14,606,548	-	-	-	-	14,606,548
Service	7,119,991	647,565	2,025	7,769,581	143,559	41,194	1,465,302	1,650,055	9,419,636
Trade	5,431,114	395,167	-	5,826,281	229,300	622	1,266,583	1,496,505	7,322,786
Energy	4,620,871	1,915,606	-	6,536,477	298,462	16,413	15,064	329,939	6,866,416
Manufacturing	3,453,256	170,483	2,365	3,626,104	66,650	5,706	906,754	979,110	4,605,214
Others	4,482,848	-	1,115,970	5,598,818	60,986	-	848,790	909,776	6,508,594
	75,239,358	15,667,107	13,362,220	104,268,685	1,490,191	605,126	17,394,761	19,490,078	123,758,763

Note: *Previous year comparative numbers are as per Basel II*

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2017

CREDIT EXPOSURE BY RESIDUAL CONTRACTUAL MATURITY

					Credit Equivalent				
	Loans AED'000	Debt securities AED'000	Others AED'000	Total funded AED'000	Commitments AED'000	OTC Derivatives AED'000	Other off balance sheet exposure AED'000	Total non-funded AED'000	Total AED'000
31 December 2017:									
Less than 3 months	11,725,438	2,804,577	7,140,082	21,670,097	188,912	89,484	3,912,562	4,190,958	25,861,055
3 months to one year	7,287,476	4,417,945	4,447,552	16,152,973	12,320	217,595	10,416,427	10,646,342	26,799,315
One to three years	12,600,392	4,932,545	22,058	17,554,995	334,707	74,987	1,993,183	2,402,877	19,957,872
Three to five years	11,682,188	4,437,454	26,807	16,146,449	47,857	82,886	193,394	324,137	16,470,586
Over five years	29,290,668	4,356,888	84,560	33,732,116	651,948	182,464	197,056	1,031,468	34,763,584
Unspecified maturities	-	1,179	2,719,951	2,721,130	-	-	-	-	2,721,130
	72,586,162	20,950,588	14,441,010	107,977,760	1,235,744	647,416	16,712,622	18,595,782	126,573,542
31 December 2016:									
Less than 3 months	13,211,366	2,429,252	8,436,937	24,077,555	199,643	120,027	3,882,611	4,202,281	28,279,836
3 months to one year	7,469,577	1,849,680	2,076,742	11,395,999	97,538	114,483	10,220,534	10,432,555	21,828,554
One to three years	15,944,411	3,733,017	209,567	19,886,995	691,292	178,614	2,659,256	3,529,162	23,416,157
Three to five years	11,628,974	4,232,202	22,856	15,884,032	52,565	49,281	408,610	510,456	16,394,488
Over five years	26,985,030	3,419,613	77,092	30,481,735	449,153	142,721	223,750	815,624	31,297,359
Unspecified maturities	-	3,343	2,539,026	2,542,369	-	-	-	-	2,542,369
	75,239,358	15,667,107	13,362,220	104,268,685	1,490,191	605,126	17,394,761	19,490,078	123,758,763

Note: *Previous year comparative numbers are as per Basel II*

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2017

IMPAIRED LOANS BY GEOGRAPHIC DISTRIBUTION

	Overdue			Provision		Adjustments		
	Less than 90 days AED'000	90 days and above AED'000	Total AED'000	Specific AED'000	General AED'000	Write offs AED'000	Write-back AED'000	Net impaired loans AED'000
31 December 2017:								
United Arab Emirates	-	2,953,821	2,953,821	1,535,378	1,392,851	-	-	1,418,443
Others	-	248,314	248,314	126,419	56,006	-	-	121,895
	-	3,202,135	3,202,135	1,661,797	1,448,857	-	-	1,540,338
31 December 2016:								
United Arab Emirates	-	2,546,842	2,546,842	1,272,856	1,468,823	-	-	1,273,986
Others	-	90,715	90,715	59,095	56,135	-	-	31,620
	-	2,637,557	2,637,557	1,331,951	1,524,958	-	-	1,305,606

RECONCILIATION OF CHANGES IN PROVISION FOR IMPAIRED LOANS

	2017			2016		
	Specific impairment allowance AED'000	Collective impairment allowance AED'000	Total impairment allowance AED'000	Specific impairment allowance AED'000	Collective impairment allowance AED'000	Total impairment allowance AED'000
At 1 January	1,331,951	1,524,958	2,856,909	1,366,942	1,340,971	2,707,913
Charge for the year (net of write backs)	1,071,097	(73,034)	998,063	733,956	203,346	937,302
Amounts written off/transfer	(743,107)	(4,115)	(747,222)	(723,868)	(24)	(723,892)
Foreign currency translation	1,856	1,048	2,904	(45,079)	(19,335)	(64,414)
At 31 December	1,661,797	1,448,857	3,110,654	1,331,951	1,524,958	2,856,909

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2017

CREDIT EXPOSURE AS PER STANDARDIZED APPROACH

Asset classes	Net on balance sheet outstanding AED'000	Net off balance sheet exposure after CCF AED'000	Exposure before CRM AED'000	Credit Risk Mitigation (CRM) AED'000	Exposure after CRM AED'000	Risk Weighted Asset AED'000
31 December 2017:						
Claims on Sovereigns	19,077,795	33,447	19,111,242	-	19,111,242	3,737,165
Claims on non-central government public sector entities	1,253,169	55	1,253,224	-	1,253,224	-
Claims on multi-lateral development banks	1,346,572	-	1,346,572	-	1,346,572	-
Claims on banks	8,554,854	1,857,681	10,412,535	(492,858)	9,919,677	5,106,642
Claims on securities firms	1,866	-	1,866	-	1,866	1,866
Claims on corporate and government related enterprises	40,029,846	16,028,322	56,058,168	(3,752,974)	52,305,194	50,695,852
Claims included in the regulatory retail portfolio	19,911,426	96,315	20,007,741	(1,230,698)	18,777,043	15,654,289
Claims secured by residential Property	368,789	-	368,789	(201)	368,588	347,822
Claims secured by commercial real estate	9,247,973	-	9,247,973	(17,388)	9,230,585	9,230,585
Past due loans	3,671,366	579,962	4,251,328	(15,602)	4,235,726	5,849,272
Other assets	4,514,104	-	4,514,104	-	4,514,104	3,707,412
	107,977,760	18,595,782	126,573,542	(5,509,721)	121,063,821	94,330,905

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2017

CREDIT EXPOSURE AS PER STANDARDIZED APPROACH (CONTINUED)

Asset classes	Net on balance sheet outstanding	Net off balance sheet exposure after CCF	Exposure before CRM	Credit Risk Mitigation (CRM)	Exposure after CRM	Risk Weighted Asset
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2016:						
Claims on Sovereigns	15,726,778	50,697	15,777,475	-	15,777,475	2,708,651
Claims on non-central government public sector entities	1,199,831	54	1,199,885	-	1,199,885	-
Claims on multi-lateral development banks	1,220,381	-	1,220,381	(91,970)	1,128,411	-
Claims on banks	9,718,874	2,016,002	11,734,876	(127,853)	11,607,023	6,162,535
Claims on securities firms	7,053	-	7,053	-	7,053	7,053
Claims on corporate and government related enterprises	42,232,119	16,774,801	59,006,920	(4,322,935)	54,683,985	54,600,593
Claims included in the regulatory retail portfolio	16,779,961	104,831	16,884,792	(1,355,788)	15,529,004	12,830,715
Claims secured by residential Property	456,098	-	456,098	-	456,098	436,053
Claims secured by commercial real estate	9,759,982	5,059	9,765,041	(29,317)	9,735,724	9,735,724
Past due loans	3,327,877	538,634	3,866,511	(10,737)	3,855,774	5,364,380
Other assets	3,839,731	-	3,839,731	-	3,839,731	3,289,181
	104,268,685	19,490,078	123,758,763	(5,938,600)	117,820,163	95,134,885

Note: *Previous year comparative numbers are as per Basel II*

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2017

CREDIT EXPOSURE AS PER STANDARDIZED APPROACH (RATED/UNRATED)

	Rated AED'000	Unrated AED'000	Total AED'000	Post CRM AED'000	RWA AED'000
31 December 2017:					
Claims on Sovereigns	7,785,722	11,325,520	19,111,242	19,111,242	3,737,165
Claims on non-central government public sector entities	552,886	700,338	1,253,224	1,253,224	-
Claims on multi-lateral development banks	1,346,572	-	1,346,572	1,346,572	-
Claims on banks	9,937,589	474,946	10,412,535	9,919,677	5,106,642
Claims on securities firms	-	1,866	1,866	1,866	1,866
Claims on corporate and government related enterprises	5,225,399	50,832,769	56,058,168	52,305,194	50,695,852
Claims included in the regulatory retail portfolio	-	20,007,741	20,007,741	18,777,043	15,654,289
Claims secured by residential Property	-	368,789	368,789	368,588	347,822
Claims secured by commercial real estate	-	9,247,973	9,247,973	9,230,585	9,230,585
Past due loans	-	4,251,328	4,251,328	4,235,726	5,849,272
Other assets	-	4,514,104	4,514,104	4,514,104	3,707,412
	24,848,168	101,725,374	126,573,542	121,063,821	94,330,905

CREDIT EXPOSURE AS PER STANDARDIZED APPROACH (RATED/UNRATED) (CONTINUED)

	Rated	Unrated	Total	Post CRM	RWA
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2016:					
Claims on Sovereigns	5,408,730	10,368,745	15,777,475	15,777,475	2,708,651
Claims on non-central government public sector entities	412,822	787,063	1,199,885	1,199,885	-
Claims on multi-lateral development banks	1,220,381	-	1,220,381	1,128,411	-
Claims on banks	11,552,023	182,853	11,734,876	11,607,023	6,162,535
Claims on securities firms	-	7,053	7,053	7,053	7,053
Claims on corporate and government related enterprises	3,932,943	55,073,977	59,006,920	54,683,985	54,600,593
Claims included in the regulatory retail portfolio	-	16,884,792	16,884,792	15,529,004	12,830,715
Claims secured by residential Property	-	456,098	456,098	456,098	436,053
Claims secured by commercial real estate	-	9,765,041	9,765,041	9,735,724	9,735,724
Past due loans	-	3,866,511	3,866,511	3,855,774	5,364,380
Other assets	-	3,839,731	3,839,731	3,839,731	3,289,181
	22,526,899	101,231,864	123,758,763	117,820,163	95,134,885

Note: *Previous year comparative numbers are as per Basel II*

CREDIT RISK MITIGATION AS PER STANDARDIZED APPROACH

	31 December 2017		31 December 2016	
	AED'000	AED'000	AED'000	AED'000
Exposure prior to Credit Risk Mitigation		**126,573,542**		123,758,763
Less:				
Exposure covered by on-balance sheet netting	**-**		-	
Exposure covered by eligible financial collateral	**2,064,757**		2,001,099	
Exposure covered by guarantees	**3,444,964**		3,937,501	
Exposure covered by credit derivatives	**-**		-	
		5,509,721		5,938,600
Net exposure after credit risk mitigation		**121,063,821**		117,820,163

Note: *Previous year comparative numbers are as per Basel II*

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2017

TOTAL CAPITAL REQUIREMENT FOR MARKET RISK UNDER STANDARDIZED APPROACH

	31 December 2017 AED'000	31 December 2016 AED'000
Interest rate risk	156	510
Equity position risk	73	31
Foreign exchange risk	68,312	73,930
Commodity risk	-	7,824
	68,541	82,295

Note: *Previous year comparative numbers are as per Basel II*

QUANTITATIVE DETAIL OF EQUITY POSITION:

	31 December 2017			31 December 2016		
	Publicly traded AED'000	Privately held AED'000	Total AED'000	Publicly traded AED'000	Privately held AED'000	Total AED'000
Equities	59,246	53,795	113,041	43,372	57,536	100,908
Collective investment schemes	-	-	-	-	-	-
Any other investments	2,980	-	2,980	3,306	-	3,306
	62,226	53,795	116,021	46,678	57,536	104,214

Note: *Previous year comparative numbers are as per Basel II*

UNREALISED AND LATENT REVALUATION GAINS (LOSSES):

	31 December 2017 AED'000	31 December 2016 AED'000
Gains (losses):		
Unrealized gains recognized in the statement of financial position but not through statement of income **	100,400	63,543
Latent revaluation gains / (losses) for investments recorded at cost but not recognized in statement of financial position or statement of income	14,678	(17,812)
	115,078	45,731

*** Eligible amount included in Tier 1 / Tier 2 capital after applying appropriate haircut, if any, is as follows:*

BASEL – PILLAR 3 DISCLOSURE

for the year ended 31 December 2017

UNREALISED AND LATENT REVALUATION GAINS (LOSSES): (CONTINUED)

	31 December 2017 AED'000	31 December 2016 AED'000
Amount included in Tier 1 capital	45,180	-
Amount included in Tier 2 Capital	-	28,594
	45,180	28,594

Note: *Previous year comparative numbers are as per Basel II*

CAPITAL REQUIREMENT BY EQUITY GROUPING

	31 December 2017 AED'000	31 December 2016 AED'000
Strategic investment	-	-
Financial assets at fair value through profit or loss:		
- Held for trading	73	31
- Designated financial assets	5,473	4,447
Available for sale	6,672	8,043
Total capital requirement	12,218	12,521

Note: *Previous year comparative numbers are as per Basel II*

INTEREST RATE RISK IN THE BANKING BOOK

	31 December 2017		31 December 2016	
	Net interest income AED'000	Regulatory capital AED'000	Net interest income AED'000	Regulatory capital AED'000
+ 200 basis point	251,888	(859,696)	210,480	(826,800)
- 200 basis point	(251,888)	859,696	(210,480)	826,800

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