UNION NATIONAL BANK -
Public Joint Stock Company

Review report and condensed consolidated interim financial information for the three month period ended 31 March 2019

UNION NATIONAL BANK – Public Joint Stock Company

Report and condensed consolidated interim financial information for the three month period ended 31 March 2019

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Union National Bank PJSC as at 31 March 2019 and the related condensed consolidated interim statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34, "*Interim Financial Reporting*". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

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

Deloitte & Touche (M.E.)

Mohammad Khamees Al Tah
Registration Number 717
24 April 2019
Abu Dhabi
United Arab Emirates

UNION NATIONAL BANK – Public Joint Stock Company

Condensed consolidated interim statement of profit or loss for the three month period ended 31 March 2019

	Notes	Three month period ended 31 March 2019 (unaudited) AED '000	2018 (unaudited) AED '000
Interest income	3	**1,258,706**	1,064,635
Interest expense	4	**(605,910)**	(428,952)
Net interest income		**652,796**	635,683
Income from Islamic financing		**81,493**	74,601
Depositors share of profit – Islamic financing		**(64,367)**	(31,829)
Net income from Islamic financing		**17,126**	42,772
Total interest income and net income from Islamic financing		**669,922**	678,455
Net fee and commission income	5	**109,973**	157,308
Net gain from dealing in foreign currencies and derivatives		**30,212**	6,716
Net investment income		**20,337**	17,190
Other operating income		**17,264**	23,514
Operating income		**847,708**	883,183
Staff costs		**(228,064)**	(192,795)
Depreciation		**(22,873)**	(18,240)
Other operating expenses		**(94,842)**	(74,864)
Operating expenses		**(345,779)**	(285,899)
Operating profit before impairment charges		**501,929**	597,284
Impairment charge on financial assets, net	6	**(239,013)**	(159,541)
Net profit before income tax		**262,916**	437,743
Income tax expense		**(11,782)**	(12,151)
Net profit for the period		**251,134**	425,592
Attributable to:			
Equity holders of the Bank		**251,399**	421,786
Non-controlling interests		**(265)**	3,806
Profit for the period		**251,134**	425,592
Basic and diluted earnings per share	21	**AED 0.07**	AED 0.14

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

UNION NATIONAL BANK – Public Joint Stock Company

Condensed consolidated interim statement of profit or loss and other comprehensive income for the three month period ended 31 March 2019

	Three month period ended 31 March	
	2019 (unaudited) AED '000	2018 (unaudited) AED '000
Profit for the period	**251,134**	425,592
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Movement in investment revaluation reserve for debt investments at FVTOCI:		
- Gains/(losses) during the period	**154,541**	(40,432)
- Reclassification of gains included in profit or loss	**(144)**	(9,715)
Fair value changes on cash flow hedges	**-**	3,859
Exchange difference on translation of foreign operations	**13,409**	3,522
Income tax relating to items that may be reclassified subsequently to profit or loss	**291**	180
	168,097	(42,586)
Items that will not be reclassified subsequently to profit or loss:		
Movement in investment revaluation reserve for equity instruments at FVTOCI	**12,281**	(748)
Other comprehensive income/(loss) for the period, net of tax	**180,378**	(43,334)
Total comprehensive income for the period	**431,512**	382,258
Total comprehensive income attributable to:		
Equity holders of the Bank	**430,899**	378,399
Non-controlling interests	**613**	3,859
Total comprehensive income for the period	**431,512**	382,258

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

UNION NATIONAL BANK – Public Joint Stock Company

Condensed consolidated interim statement of financial position as at 31 March 2019

	Notes	31 March 2019 (unaudited) AED '000	31 December 2018 (audited) AED '000
ASSETS			
Cash and balances with central banks	7	7,771,058	6,885,702
Due from banks	8	2,546,140	4,196,512
Loans and advances measured at amortised cost	9	72,242,660	72,331,205
Investments	10	17,947,193	19,274,764
Investment properties		1,876,166	1,869,825
Other assets		2,127,745	2,034,340
Property and equipment		410,765	316,066
Goodwill		83,498	80,795
Total assets		105,005,225	106,989,209
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	11	76,603,620	77,439,629
Due to banks	12	2,111,228	3,400,372
Medium term borrowings	13	5,117,529	5,115,605
Other liabilities		2,388,585	2,077,321
Total liabilities		86,220,962	88,032,927
Equity			
Share capital	14	2,751,426	2,751,426
Legal and statutory reserves		2,780,596	2,780,596
General reserve		82,681	82,681
Retained earnings		11,679,004	12,030,627
Foreign currency translation reserve		(802,527)	(815,434)
Cumulative changes in fair value		143,658	(22,935)
Tier I capital notes	15	2,000,000	2,000,000
Equity attributable to equity holders of the Bank		18,634,838	18,806,961
Non-controlling interests		149,425	149,321
Total equity		18,784,263	18,956,282
Total liabilities and equity		105,005,225	106,989,209

These condensed consolidated interim financial information was approved and authorised for issue by the Board of Directors on 24 April 2019 and signed on their behalf by:

Nahayan Mabarak Al Nahayan Chairman	**Ajay Bhuptani** Acting Chief Executive Officer	**Sanjeev Dureja** Chief Financial Officer

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

Condensed consolidated interim statement of changes in equity for the three month period ended 31 March 2019

		Attributable to equity holders of the Bank									Non-controlling interests	Total equity
	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	AED '000	AED '000
At 1 January 2019		**2,751,426**	**2,780,596**	**82,681**	**12,030,627**	**(815,434)**	**(22,935)**	-	**2,000,000**	**18,806,961**	**149,321**	**18,956,282**
Profit for the period		-	-	-	251,399	-	-	-	-	**251,399**	**(265)**	**251,134**
Other comprehensive income/(loss) for the period		-	-	-	-	**12,907**	**166,593**	-	-	**179,500**	**878**	**180,378**
Total comprehensive income for the period		-	-	-	**251,399**	**12,907**	**166,593**	-	-	**430,899**	**613**	**431,512**
Cash dividend	*14*	-	-	-	**(550,285)**	-	-	-	-	**(550,285)**	**(509)**	**(550,794)**
Interest on Tier I capital notes		-	-	-	**(52,737)**	-	-	-	-	**(52,737)**	-	**(52,737)**
Realised gain on FVTOCI - Equity		-	-	-	-	-	-	-	-	-	-	-
At 31 March 2019 (unaudited)		**2,751,426**	**2,780,596**	**82,681**	**11,679,004**	**(802,527)**	**143,658**	-	**2,000,000**	**18,634,838**	**149,425**	**18,784,263**
At 31 December 2017		2,751,426	2,774,315	73,944	12,395,984	(816,215)	100,400	16,253	2,000,000	19,296,107	170,392	19,466,499
Effect of change in accounting policy for IFRS 9 Financial Instrument		-	-	-	(905,787)	-	18,847	-	-	(886,940)	(9,464)	(896,404)
At 1 January 2018 (restated)		2,751,426	2,774,315	73,944	11,490,197	(816,215)	119,247	16,253	2,000,000	18,409,167	160,928	18,570,095
Profit for the period		-	-	-	421,786	-	-	-	-	421,786	3,806	425,592
Other comprehensive income/(loss) for the period		-	-	-	-	3,441	(50,687)	3,859	-	(43,387)	53	(43,334)
Total comprehensive income for the period		-	-	-	421,786	3,441	(50,687)	3,859	-	378,399	3,859	382,258
Cash dividend	*14*	-	-	-	(550,285)	-	-	-	-	(550,285)	(6,370)	(556,655)
Interest on Tier I capital notes		-	-	-	(41,492)	-	-	-	-	(41,492)	-	(41,492)
Realised gain on FVTOCI - Equity		-	-	-	67	-	-	-	-	67	-	67
At 31 March 2018 (unaudited)		2,751,426	2,774,315	73,944	11,320,273	(812,774)	68,560	20,112	2,000,000	18,195,856	158,417	18,354,273

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

Condensed consolidated interim statement of cash flows for the three month period ended 31 March 2019

	Note	Three month period ended 31 March 2019 (unaudited) AED '000	2018 (unaudited) AED '000
Net cash used in operating activities		**(888,574)**	(4,159,265)
Net cash from investing activities		**1,221,660**	1,163,450
Net cash from financing activities		**(647,413)**	787,780
Net decrease in cash and cash equivalents		**(314,327)**	(2,208,035)
Cash and cash equivalents at the beginning of the period		**5,855,986**	6,358,544
Cash and cash equivalents at end of the period	**18**	**5,541,659**	4,150,509

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

1 General information

Union National Bank - Public Joint Stock Company (the "Bank") was incorporated in the Emirate of Abu Dhabi on 29 November 1982 as a Public Joint Stock Company with limited liability under an Emiri Decree and in accordance with UAE Federal Law No (2) of 2015. The Bank carries on commercial and investment banking activities through its seventy four branches in the United Arab Emirates, a branch in the Qatar Financial Centre (UNB - Q), the State of Qatar, a branch in the State of Kuwait (UNB - K) and a branch in the People's Republic of China.

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

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

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

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

2 Basis of preparation

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2019, have been adopted in these financial statements.

The Group applies, for the first time, IFRS 16 Leases. In the current period, the Group has also applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2019. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may effect the accounting for the Group's future transactions or arrangements.

- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- Amendments to IAS 28 Investment in Associates and Joint Ventures: Relating to long-term interests in associates and joint ventures.
- Annual Improvements to IFRSs 2015-2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
- Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement
- IFRIC 23 Uncertainty over Income Tax Treatments

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2019.

2.2 New and revised IFRS in issue but not yet effective

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

- Amendments regarding the definition of material
- Amendments to clarify the definition of a business
- IFRS 17: Insurance Contracts
- 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.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the condensed consolidated financial statements of the Group in the period of initial application.

2 Basis of preparation (continued)

2.3 Statement of compliance and consolidation

This condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2018. In addition, results for the three month period ended 31 March 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

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

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

2 Basis of preparation (continued)

2.4 Critical accounting judgments and key sources of estimation uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements of the Group as at and for the year ended 31 December 2018.

2.5 Significant accounting policies

The accounting policies, presentation and methods of computation followed by the Group in this condensed consolidated interim financial information are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2018, except as required by adoption of IFRS 16 Leases which is applicable from 1 January 2019 (refer note 2.5.8):

2.5.1 Foreign currencies

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

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

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

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.2 Net interest income

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

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

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

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

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

2.5.3 Net fee and commission income

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

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

2.5.4 Net gain from dealing in foreign currencies and derivatives

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

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.5 Net investment income

Net investment income include realised gains and losses arising from disposals, unrealised gains and losses due to changes in the fair value of investments measured at FVTPL and dividend income. Gains and losses arising from changes in fair value of FVTOCI are recognised in the statement of other comprehensive income. Once the FVTOCI investments are sold or realised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the consolidated statement of profit or loss.

2.5.6 Dividend income

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

2.5.7 Financial instruments

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

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

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

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

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

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

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) Financial assets

Classification

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

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

- the entity's business model for managing the financial assets; and
- the contractual cash flow characteristics of the financial asset.

Financial assets at amortised cost

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

A financial asset is held for trading if:

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

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) Financial assets (continued)

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

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

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

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

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

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

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

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

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

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) Financial assets (continued)

Reclassifications

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

Impairment of financial assets

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

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

No impairment loss is recognised on equity investments.

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

- 12-month ECL, i.e. ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or

- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

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

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) Financial assets (continued)

Impairment of financial assets (continued)

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

- For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down.

- For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group primarily measures ECL on an individual basis and on a collective basis for certain portfolios of loans that share similar economic risk characteristics.

Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower;

- a breach of contract, such as a default or past due event;

- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider.

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

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) Financial assets (continued)

Impairment of financial assets (continued)

Credit-impaired financial assets (continued)

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

Purchased or originated credit-impaired (POCI) financial assets

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

Definition of default

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

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

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

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

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

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) Financial assets (continued)

Impairment of financial assets (continued)

Significant increase in credit risk

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

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, as well as internally generated information of customer payment behaviour. The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in days past due, internal ratings or rating downgrades inter-alia including any significant changes in operating results or financial position of the borrower, guarantor and other operating or economic conditions adversely impact borrower's ability to honour commitments.

The PDs used are forward looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL. Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) Financial assets (continued)

Impairment of financial assets (continued)

Significant increase in credit risk (continued)

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

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

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

Modification and derecognition of financial assets

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

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

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) Financial assets (continued)

Modification and derecognition of financial assets (continued)

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

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

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

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

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

- the PD at the reporting date based on the modified terms.

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

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) Financial assets (continued)

Modification and derecognition of financial assets (continued)

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

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

Write-off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(a) Financial assets (continued)

Presentation of allowance for ECL in the statement of financial position

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

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

(b) Financial liabilities and equity instruments

Classification as debt or equity

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

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

Equity instruments

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

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

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(b) Financial liabilities and equity instruments (continued)

Financial liabilities

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

Financial liabilities at FVTPL

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

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

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

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

Financial liabilities subsequently measured at amortised cost

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

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

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(b) Financial liabilities and equity instruments (continued)

Financial guarantee contracts

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

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

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

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

Loan commitments

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

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

Derecognition of financial liabilities

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

(c) Offsetting of financial instruments

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

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

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(d) Derivative financial instruments

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

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

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

Embedded derivatives

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

(e) Hedge accounting

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

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

At the inception of a hedging relationship, to qualify for hedge accounting, the Group documents the relationship between the hedging instruments and the hedged items as well as its risk management objective and its strategy for undertaking the hedge. The Group also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest income and expenses on designated qualifying hedge swaps is included in 'Net interest income'.

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(e) Hedge accounting (continued)

Fair value hedges

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

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

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

Cash flow hedges

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

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

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

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(e) Hedge accounting (continued)

Hedge effectiveness testing

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

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

(f) Fair value measurement principles

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

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

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

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

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

2 Basis of preparation (continued)

2.5 Significant accounting policies (continued)

2.5.7 Financial instruments (continued)

(f) Fair value measurement principles (continued)

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

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

2.5.8 Leases

The Group has adopted IFRS 16 'Leases', issued in January 2016, with the date of initial application of 1 January 2019. IFRS 16 introduces significant changes to lessee accounting. It removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognise a right-of-use asset and a lease liability at lease commencement for all leases, except for short term leases.

Lessee accounting

The Group initially measures the right-of-use asset at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability.

The Group initially measures the lease liability at the present value of the future lease payments discounted using the discount rate implicit in the lease. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. The Group has assessed that the impact of IFRS 16 is not material on retained earnings as at the reporting date and has presented right of use assets within 'Property and equipment' and lease liabilities within 'Other liabilities' in the consolidated statement of financial position.

3 Interest income

	Three month period ended	
	31 March 2019 AED'000 (unaudited)	31 March 2018 AED'000 (unaudited)
Loans and advances	**986,809**	843,197
Investments	**192,372**	181,582
Due from banks	**79,525**	39,856
	1,258,706	1,064,635

4 Interest expense

	Three month period ended	
	31 March 2019 AED'000 (unaudited)	31 March 2018 AED'000 (unaudited)
Customers' deposits	**535,998**	369,695
Due to banks and medium term borrowings	**69,912**	59,257
	605,910	428,952

5 Net fee and commission income

	Three month period ended	
	31 March 2019 AED'000 (unaudited)	31 March 2018 AED'000 (unaudited)
Fee and commission income:		
Trade related fees	**40,168**	42,522
Credit related fees	**36,387**	49,073
Retail fees	**24,899**	49,321
Account service charges	**17,152**	23,447
Brokerage income	**1,196**	1,233
Others	**8,772**	8,777
	128,574	174,373
Fee and commission expenses	**(18,601)**	(17,065)
	109,973	157,308

6 Impairment charge on financial assets, net

	Three month period ended	
	31 March 2019 AED'000 (unaudited)	31 March 2018 AED'000 (unaudited)
Impairment charge on loans and advances	**272,970**	197,414
Recovery of loans and advances	**(9,434)**	(38,326)
Impairment charge on balances with central banks	**-**	448
Impairment charge on due from banks	**1,224**	465
Impairment release on investments measured at amortised cost	**(12,307)**	(896)
Impairment release on investments measured at FVTOCI	**(10,832)**	(135)
Impairment (release)/charge on other assets	**(702)**	5,482
Impairment release on contingent liabilities	**(1,906)**	(4,911)
	239,013	159,541

7 Cash and balances with central banks

	31 March 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Cash on hand	**648,552**	634,739
Balances with central banks		
- Certificates of deposit	**2,900,000**	763,594
- Cash reserve deposits	**2,905,178**	2,487,369
- Deposits and other balances	**1,317,328**	3,000,000
	7,771,058	6,885,702
Less: Allowance for impairment	**-**	-
	7,771,058	6,885,702

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

8 Due from banks

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

	31 March 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Due from banks:		
- Local banks	**129,159**	1,634,622
- Foreign banks	**2,418,408**	2,562,147
	2,547,567	4,196,769
Less: Allowance for impairment	**(1,427)**	(257)
	2,546,140	4,196,512
Due from banks:		
- Up to 3 months	**2,372,276**	4,170,816
- Over 3 months	**173,864**	25,696
	2,546,140	4,196,512

9 Loans and advances measured at amortised cost

	31 March 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Term loans	**63,489,058**	62,946,109
Overdrafts	**6,023,400**	6,297,841
Islamic financing	**6,491,977**	6,567,593
Others	**284,381**	316,848
	76,288,816	76,128,391
Less: Allowance for impairment	**(4,046,156)**	(3,797,186)
	72,242,660	72,331,205

9 Loans and advances measured at amortised cost (continued)

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

	31 March 2019	31 December 2018			
	Total impairment allowance AED'000	Stage 1 impairment allowance AED'000	Stage 2 impairment allowance AED'000	Stage 3 impairment allowance AED'000	Total impairment allowance AED'000
At 1 January (as per IAS 39)	-	1,448,857	-	1,661,797	3,110,654
Effect of change in accounting policy for IFRS 9	-	(699,371)	1,032,353	482,582	815,564
	3,797,186	749,486	1,032,353	2,144,379	3,926,218
Charge for the year (net of write backs)	**272,970**	(198,455)	256,197	930,730	988,472
Amounts written off / transferred	**(33,785)**	137,391	(336,820)	(909,560)	(1,108,989)
Foreign currency translation	**9,785**	(290)	(64)	(8,161)	(8,515)
	4,046,156	688,132	951,666	2,157,388	3,797,186

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

	31 March 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Consumer	**18,813,779**	19,228,808
Real estate and mortgage loans	**14,198,915**	13,745,387
Financial institutions	**10,052,310**	9,728,748
Services	**7,089,863**	6,571,452
Trade	**5,474,182**	6,393,376
Energy	**5,362,599**	4,813,843
Construction	**4,046,812**	3,969,135
Sovereign	**3,511,077**	3,478,841
Manufacturing	**3,417,717**	3,647,794
Others	**4,321,562**	4,551,007
Gross loans and advances	**76,288,816**	76,128,391
Less: Allowance for impairment	**(4,046,156)**	(3,797,186)
Net loans and advances	**72,242,660**	72,331,205

9 Loans and advances measured at amortised cost (continued)

Islamic financing measured at amortised cost

Loans and advances include the following Islamic financing contracts:

	31 March 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Murabaha	**3,378,119**	3,544,963
Ijara	**2,402,726**	2,276,988
Mudaraba	**64,544**	92,651
Others	**646,588**	652,991
	6,491,977	6,567,593
Less: Allowance for impairment	**(342,719)**	(324,663)
	6,149,258	6,242,930

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

	31 March 2019	31 December 2018			
	Total impairment allowance AED'000	Stage 1 impairment allowance AED'000	Stage 2 impairment allowance AED'000	Stage 3 impairment allowance AED'000	Total impairment allowance AED'000
At 1 January	-	64,312	-	140,457	204,769
Effect of change in accounting policy for IFRS 9	-	4,953	103,794	96,062	204,809
	324,663	69,265	103,794	236,519	409,578
Charge for the year (net of write backs)	**18,146**	(14,451)	(28,176)	59,062	16,435
Amounts written off / transferred	**(90)**	(6,778)	50	(94,622)	(101,350)
	342,719	48,036	75,668	200,959	324,663

10 Investments

The analysis of Group's investments as at 31 March 2019 is as follows:

31 March 2019 (unaudited)	**Investments measured at amortised cost AED'000**	**Investments measured at: Fair value through other comprehensive income AED'000**	**Investments measured at: Fair value through profit or loss AED'000**	**Total AED'000**
Equity instruments:				
Quoted	-	**18,891**	**67,787**	**86,678**
Unquoted	-	**68,148**	-	**68,148**
Debt instruments:				
Quoted - fixed rate	**639,590**	**14,755,429**	**226,488**	**15,621,507**
Quoted - floating rate	-	**476,585**	-	**476,585**
Unquoted - fixed rate	**168,455**	-	-	**168,455**
Treasury bills	**6,040**	**1,517,291**		**1,523,331**
Investment in managed funds	-	-	**2,569**	**2,569**
	814,085	**16,836,344**	**296,844**	**17,947,273**
Less: Allowance for impairment	**(80)**	-	-	**(80)**
	814,005	**16,836,344**	**296,844**	**17,947,193**

The analysis of Group's investments as at 31 December 2018 is as follows:

31 December 2018 (audited)	Investments measured at amortised cost AED'000	Investments measured at: Fair value through other comprehensive income AED'000	Investments measured at: Fair value through profit or loss AED'000	Total AED'000
Equity instruments:				
Quoted	-	23,044	56,848	79,892
Unquoted	-	51,633	-	51,633
Debt instruments:				
Quoted - fixed rate	1,004,706	15,218,255	250,433	16,473,394
Quoted - floating rate	-	476,018	-	476,018
Unquoted - fixed rate	168,435	-	-	168,435
Treasury bills	6,050	2,028,943	-	2,034,993
Investment in managed funds	-	-	2,583	2,583
	1,179,191	17,797,893	309,864	19,286,948
Less: Allowance for impairment	(12,184)	-	-	(12,184)
	1,167,007	17,797,893	309,864	19,274,764

10 Investments (continued)

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

Maturity analysis of investments is provided in the below table:

	31 March 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Investments:		
Up to 3 months	**1,891,971**	2,200,357
3 months to 1 year	**3,818,830**	4,549,496
1 year to 3 years	**4,821,242**	4,996,311
3 years to 5 years	**2,876,944**	3,072,081
Over 5 years	**4,196,009**	4,113,663
Unspecified maturity	**342,197**	342,856
	17,947,193	19,274,764

	31 March 2019			31 December 2018		
	Trading investments AED'000 (unaudited)	**Non-trading investments AED'000 (unaudited)**	**Total AED'000 (unaudited)**	Trading investments AED'000 (audited)	Non-trading investments AED'000 (audited)	Total AED'000 (audited)
Within U.A.E.	**151,792**	**12,103,696**	**12,255,488**	176,525	12,264,280	12,440,805
Outside U.A.E.	**145,052**	**5,546,653**	**5,691,705**	133,339	6,700,620	6,833,959
	296,844	**17,650,349**	**17,947,193**	309,864	18,964,900	19,274,764

The Group enters into agreements to sell assets with a simultaneous commitment to repurchase them at a specified future date (repos) whereby the Group retains substantially all of the risks and rewards of ownership of the assets and accordingly, the assets are not derecognised. The Group has entered into repurchase agreements relating to FVTOCI securities with a fair value amounting to AED 179,318 thousand (31 December 2018: AED 1,820,899 thousand) and FVTPL securities with a fair value amounting to Nil (31 December 2018: AED 12,860 thousand). The related liability amounting to AED 180,176 thousand (31 December 2018: AED 1,745,271 thousand) is included in due to banks.

11 Customers' deposits

	31 March 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Time deposits	**54,268,269**	54,654,497
Current and call accounts	**12,439,730**	12,127,055
Islamic deposits	**7,428,362**	8,029,138
Saving accounts	**1,665,217**	1,603,260
Sundry deposits	**802,042**	1,025,679
	76,603,620	77,439,629

Analysis of customers' deposits by sector is shown below:

	31 March 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Corporate	**28,677,263**	29,180,411
Sovereign	**22,208,256**	24,009,811
Public Sector	**15,997,293**	14,746,122
Retail	**9,720,808**	9,503,285
	76,603,620	77,439,629

12 Due to banks

	31 March 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Deposits	**1,700,689**	1,372,502
Overnight and short term placements	**340,442**	1,880,092
Demand	**70,097**	147,778
	2,111,228	3,400,372

13 Medium term borrowings

	31 March 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Euro medium term notes	**5,117,529**	5,115,605
	5,117,529	5,115,605

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

	Maturity	*Fixed/Floating*	*Interest rate*	31 March 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Euro medium term notes					
USD	October 2021	Fixed	2.75%	**2,196,238**	**2,195,510**
USD	February 2022	Floating	3 month USD Libor + 1.40% margin	**1,094,256**	**1,093,600**
USD	March 2023	Fixed	4%	**1,827,035**	**1,826,495**
				5,117,529	**5,115,605**

14 Share capital

The authorized share capital of the Bank is 5,000,000 thousand shares of AED 1 each (31 December 2018: 5,000,000 thousand shares of AED 1 each). The issued and paid up share capital of the Bank is 2,751,426 thousand shares of AED 1 each (31 December 2018: 2,751,426 thousand shares of AED 1 each).

Cash dividend of AED 0.20 per share amounting to AED 550,285 thousand (2017: Cash dividend of AED 0.20 per share amounting to AED 550,285 thousand) was paid after the shareholder's approval in the Annual General Meeting held on 21 March 2019 (2018: Annual General Meeting held on 11 March 2018).

15 Tier I Capital notes

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

The Capital Notes are non-voting, non-cumulative perpetual securities, and are callable subject to certain conditions. The Bank may, at its sole discretion, elect not to make an interest payment. During the period ended 31 March 2019, interest amounting to AED 52,737 thousand was paid (period ended 31 March 2018: AED 41,492 thousand) and shown in the condensed consolidated interim statement of changes in equity.

16 Contingent liabilities and commitments

	31 March 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Contingent liabilities:		
Letters of guarantee	**26,059,560**	27,077,818
Letters of credit	**2,533,354**	2,555,226
	28,592,914	29,633,044
Commitments:		
Loan commitments	**14,716,185**	13,895,888
Investment properties commitments	**129,653**	135,994
Capital expenditure commitments	**51,588**	69,789
Operating lease commitments	**-**	51,125
	14,897,426	14,152,796
	43,490,340	43,785,840

The Group has recognised impairment allowance of AED 35,660 thousand (31 December 2018: AED 37,406 thousand) and has been included in other liabilities.

17 Derivatives

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

31 March 2019 (unaudited)	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	**10,527,605**	**15,347**	**(190)**	**15,157**
Interest rate swaps	**6,849,738**	**110,632**	**(62,058)**	**48,574**
Cross currency swaps	**163,948**	**9,205**	**(2,840)**	**6,365**
FX time options	**15,597**	**43**	**(136)**	**(93)**
Commodities – Forwards	**242,131**	**9,927**	**(9,749)**	**178**
Currency Options	**1,101,900**	**159**	**(159)**	**-**
	18,900,919	**145,313**	**(75,132)**	**70,181**
Derivatives held as fair value hedge:				
Interest rate swaps	**11,210,898**	**84,787**	**(95,382)**	**(10,595)**
	30,111,817	**230,100**	**(170,514)**	**59,586**
31 December 2018 (audited)				
Derivatives held for trading:				
Forward foreign exchange contracts	11,264,393	14,210	(3,215)	10,995
Interest rate swaps	6,282,587	102,276	(54,134)	48,142
Cross currency swaps	239,460	15,943	(3,577)	12,366
FX time options	21,525	90	(57)	33
Commodities – Forwards	358,828	17,054	(16,831)	223
Currency Options	-	-	-	-
	18,166,793	149,573	(77,814)	71,759
Derivatives held as fair value hedge:				
Interest rate swaps	11,773,591	176,251	(68,950)	107,301
	29,940,384	325,824	(146,764)	179,060

18 Cash and cash equivalents

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

	31 March 2019 AED'000 (unaudited)	31 March 2018 AED'000 (unaudited)
Cash and balances with central banks	**7,771,058**	6,771,243
Treasury bills	**1,523,331**	2,019,008
Due from banks	**2,546,140**	5,453,899
Due to banks	**(2,111,228)**	(2,955,786)
	9,729,301	11,288,364
Less: Original maturities more than 3 months		
Cash and balances with central banks	**2,936,969**	3,679,636
Treasury bills	**1,115,749**	1,930,080
Due from banks	**300,914**	1,533,236
Due to banks	**(165,990)**	(5,097)
	5,541,659	4,150,509

19 Related party transactions

A party is related to the Group if:

i. directly, or indirectly through one or more intermediaries, is controlled by, or is under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries); has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
ii. the party is an associate of the Group;
iii. the party is a joint venture in which the Group is a venturer;
iv. the party is a member of the key management personnel of the Group or its parent;
v. the party is a close member of the family of any individual referred to in (i) or (iv);
vi. the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
vii. the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

19 Related party transactions (continued)

In the case of the Group, related parties, as defined in International Accounting Standard No. 24: *Related Party Disclosures* include the Government of Abu Dhabi (Ultimate controlling party and its related entities), directors and their related entities and key management of the Group and their related entities. Banking transactions are entered into with related parties on terms and conditions approved by either the Group's management and/or Directors. The Group engages in transactions with related parties only on arm's length terms and in accordance with relevant laws and regulations.

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

	Major shareholders, Directors and their related entities AED'000	**Key management AED'000**	**Associates AED'000**	**Total AED'000**
31 March 2019				
Due from banks	**81,031**	-	-	**81,031**
Loans and advances measured at amortised cost	**8,357,681**	**2,149**	-	**8,359,830**
Investments	**7,079,202**	-	**103,507**	**7,182,709**
Other assets	**188,069**	**5**	-	**188,074**
Customers' deposits	**27,808,905**	**3,168**	**102,120**	**27,914,193**
Due to Banks	**135,382**	-	-	**135,382**
Other liabilities	**327,315**	**6**	**1,114**	**328,435**
Tier 1 capital notes	**2,000,000**	-	-	**2,000,000**
Commitments and contingencies	**2,554,400**	-	-	**2,554,400**
Derivatives (contractual/notional amounts)	**12,641,757**	-	-	**12,641,757**
Post-retirement benefits payable	-	**5,256**	-	**5,256**
31 December 2018				
Due from banks	17,583	-	-	17,583
Loans and advances measured at amortised cost	7,910,093	1,971	-	7,912,064
Investments	7,480,306	-	106,100	7,586,406
Other assets	269,096	5	-	269,101
Customers' deposits	25,787,889	3,496	105,693	25,897,078
Due to Banks	177,753	-	-	177,753
Other liabilities	290,442	7	91	290,540
Tier 1 capital notes	2,000,000	-	-	2,000,000
Commitments and contingencies	2,957,856	-	-	2,957,856
Derivatives (contractual/notional amounts)	12,302,387	-	-	12,302,387
Post-retirement benefits payable	-	6,584	-	6,584

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the three month period ended 31 March 2019 (continued)

19 Related party transactions (continued)

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

	Major shareholders, Directors and their related entities AED'000	Key management AED'000	Associate AED'000	Total AED'000
For the three month period ended 31 March 2019 (unaudited				
Interest income	**155,790**	**17**	-	**155,807**
Profit income	**2,127**	-	-	**2,127**
Interest expense	**171,924**	**20**	-	**171,944**
Profit expense	**4,672**	-	**1,023**	**5,695**
Net fee and commission income	**5,792**	-	**1**	**5,793**
Net gain from dealing in foreign currencies and derivatives	**(152,480)**	-	-	**(152,480)**
Other operating expenses	-	-	**56**	**56**
Share in (loss) / profit of associates	-	-	**(3,091)**	**(3,091)**
Interest on Tier 1 capital notes	**52,737**	-	-	**52,737**
Directors' remuneration	**2,706**	-	-	**2,706**
Salary and benefits	-	**7,291**	-	**7,291**
Post-retirement benefits	-	**705**	-	**705**
For the three month period ended 31 March 2018 (unaudited				
Interest income	119,203	16	-	119,219
Profit income	-	-	-	-
Interest expense	127,188	-	-	127,188
Profit expense	3,372	-	1,524	4,896
Net fee and commission income	8,413	-	-	8,413
Net gain from dealing in foreign currencies and derivatives	110,233	-	-	110,233
Share in (loss) / profit of associates	-	-	3	3
Interest on Tier 1 capital notes	41,492	-	-	41,492
Directors' remuneration	2,183	-	-	2,183
Salary and benefits	-	8,069	-	8,069
Post-retirement benefits	-	355	-	355

Interest rates on loans and advances to related parties during the period ended 31 March 2019 ranged from 1.5% to 16.9% per annum (period ended 31 March 2018: 1.46% to 16% per annum). Interest rates on deposits from related parties during the period ended 31 March 2019 ranged from 0% to 4.0% per annum (period ended 31 March 2018: 0% to 3.6% per annum).

Fees and commissions rates on transactions with related parties during the period ended 31 March 2019 ranged from 0% to 3% per annum (period ended 31 March 2018: 0% to 3% per annum).

20 Operating segments

The Group is organised into following major operating segments:

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

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

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

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

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

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

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

UNION NATIONAL BANK – Public Joint Stock Company

Notes to the condensed consolidated interim financial information for the three month period ended 31 March 2019 (continued)

20 Operating segments (continued)

The below table presents segmental income, expenses, profit and capital expenditure for the three month period ended 31 March 2019 (unaudited):

	Corporate banking AED'000	Consumer banking AED'000	Islamic banking AED'000	Treasury and Investment banking AED'000	International and unallocated AED'000	Total AED'000
Net interest income and income from Islamic financing	220,010	204,111	33,754	99,971	112,076	669,922
Other operating income	52,165	44,609	23,178	45,991	11,843	177,786
Operating income	272,175	248,720	56,932	145,962	123,919	847,708
Other operating expenses	(62,124)	(171,924)	(26,749)	(25,709)	(36,400)	(322,906)
Depreciation	(2,885)	(9,857)	(1,980)	(954)	(7,197)	(22,873)
Operating profit	207,166	66,939	28,203	119,299	80,322	501,929
Impairment (charge)/release on financial assets, net	(88,909)	(103,296)	(17,729)	(10,950)	(18,129)	(239,013)
Income tax expense	-	-	-	-	(11,782)	(11,782)
Profit/(loss) for the period	118,257	(36,357)	10,474	108,349	50,411	251,134
Segment capital expenditure	2,579	11,993	39	-	8,243	22,854

The below table presents segmental assets and liabilities as on 31 March 2019 (unaudited):

	Corporate banking AED'000	Consumer banking AED'000	Islamic Banking AED'000	Treasury and Investment banking AED'000	International and unallocated AED'000	Total AED'000
Reportable segment assets	40,314,086	18,362,773	10,485,740	25,194,640	10,647,986	105,005,225
Reportable segment liabilities	29,372,749	12,767,515	8,075,300	26,681,754	9,323,644	86,220,962

20 Operating segments (continued)

The below table presents segmental income, expenses, profit and capital expenditure for the three month period ended 31 March 2018 (unaudited):

	Corporate banking AED'000	Consumer banking AED'000	Islamic banking AED'000	Treasury and Investment banking AED'000	International and unallocated AED'000	Total AED'000
Net interest income and income from Islamic financing	209,973	256,824	43,674	71,755	96,229	678,455
Other operating income	61,523	67,826	28,604	33,721	13,054	204,728
Operating income	271,496	324,650	72,278	105,476	109,283	883,183
Other operating expenses	(50,312)	(149,467)	(24,182)	(19,331)	(24,367)	(267,659)
Depreciation	(3,339)	(7,689)	(835)	(1,454)	(4,923)	(18,240)
Operating profit	217,845	167,494	47,261	84,691	79,993	597,284
Impairment (charge)/release on financial assets, net	(25,433)	(90,087)	(1,471)	(4,376)	(38,174)	(159,541)
Income tax expense	-	-	-	-	(12,151)	(12,151)
Profit for the period	192,412	77,407	45,790	80,315	29,668	425,592
Segment capital expenditure	7	1,161	1,072	23	6,248	8,511

The below table presents segmental assets and liabilities as on 31 December 2018 (audited):

	Corporate banking AED'000	Consumer banking AED'000	Islamic banking AED'000	Treasury and Investment banking AED'000	International and unallocated AED'000	Total AED'000
Reportable segment assets	40,138,516	18,792,199	10,995,453	27,164,194	9,898,847	106,989,209
Reportable segment liabilities	31,828,497	12,186,426	8,578,690	26,583,081	8,856,233	88,032,927

20 Operating segments (continued)

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

	Three month period ended 31 March 2019			Three month period ended 31 March 2018		
	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	**619,964**	**49,958**	**669,922**	629,036	49,419	678,455
Other operating income	**160,858**	**16,928**	**177,786**	187,855	16,873	204,728
Operating income	**780,822**	**66,886**	**847,708**	816,891	66,292	883,183
Other operating expenses	**(288,610)**	**(34,296)**	**(322,906)**	(238,326)	(29,333)	(267,659)
Depreciation	**(16,477)**	**(6,396)**	**(22,873)**	(14,119)	(4,121)	(18,240)
Operating profit	**475,735**	**26,194**	**501,929**	564,446	32,838	597,284
Impairment charge on financial assets, net	**(220,894)**	**(18,119)**	**(239,013)**	(149,318)	(10,223)	(159,541)
Income tax expense	**-**	**(11,782)**	**(11,782)**	-	(12,151)	(12,151)
Profit / (loss) for the period	**254,841**	**(3,707)**	**251,134**	415,128	10,464	425,592

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

	As on 31 March 2019 (unaudited)			As on 31 December 2018 (audited)		
	Domestic AED'000	**International AED'000**	**Total AED'000**	Domestic AED'000	International AED'000	Total AED'000
Assets	**96,173,861**	**8,831,364**	**105,005,225**	98,865,960	8,123,249	106,989,209
Liabilities	**78,076,344**	**8,144,618**	**86,220,962**	80,590,600	7,442,327	88,032,927

20 Operating segments (continued)

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

	External (unaudited) Three month period ended		Inter-segment (unaudited) Three month period ended	
	31 March 2019 AED'000	31 March 2018 AED'000	**31 March 2019 AED'000**	31 March 2018 AED'000
Corporate banking	**341,665**	305,109	**(69,490)**	(33,613)
Consumer banking	**344,015**	385,654	**(95,295)**	(61,004)
Islamic banking	**60,367**	69,453	**(3,435)**	2,825
Treasury and Investment banking	**35,066**	49,389	**110,896**	56,087
International and unallocated	**66,595**	73,578	**57,324**	35,705
Total	**847,708**	883,183	**-**	-

21 Basic and diluted earnings per share

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

	Three month period ended	
	31 March 2019 AED'000 (unaudited)	31 March 2018 AED'000 (unaudited)
Profit for the period attributable to equity holders of the Bank	**251,399**	421,786
Less: Interest on Tier I capital notes	**(52,737)**	(41,492)
Profit for the period attributable to equity holders of the Bank after interest on Tier 1 capital notes	**198,662**	380,294
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 period (Thousand)	**2,751,426**	2,751,426
Basic and diluted earnings per share (AED)	**0.07**	0.14

22 Capital adequacy

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

	31 March 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Capital Base:		
Tier I Capital		
Common Equity Tier 1 (CET 1)	**16,587,979**	16,292,470
Additional Tier 1 capital (AT 1)	**2,000,000**	2,000,000
Total (a)	**18,587,979**	18,292,470
Eligible Tier 2 Capital (b)	**1,199,369**	1,202,370
Total capital base (a) + (b)	**19,787,348**	19,494,840
Risk-weighted assets:		
Credit Risk	**95,949,540**	96,189,570
Market Risk	**908,755**	905,361
Operational Risk	**6,224,010**	6,224,010
Total risk-weighted assets (c)	**103,082,305**	103,318,941

Capital ratio	Minimum Capital Requirement 2019	31 March 2019	31 December 2018
Total capital ratio for consolidated Group	**13.0%**	**19.2%**	18.9%
Tier 1 ratio only for consolidated Group	**11.0%**	**18.0%**	17.7%
CET1 ratio only for consolidated Group	**9.5%**	**16.1%**	15.8%

23 Fair value measurement

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

Quoted market prices – Level 1

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

Valuation techniques using observable inputs – Level 2

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

Valuation techniques using significant unobservable inputs – Level 3

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

The carrying values of the investments are adjusted as follows:

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

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

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

23 Fair value measurement (continued)

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

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

The below table shows the hierarchy used by the Group to determine the fair value of the assets and liabilities that are measured at fair value or for which fair value information is disclosed as at 31 March 2019 (unaudited):

	Notes	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets					
Investments measured at fair value through profit or loss	*10*	**294,275**	**2,569**	-	**296,844**
Investments measured at fair value through other comprehensive income	*10*	**15,250,905**	**1,517,291**	**68,148**	**16,836,344**
Derivative financial instruments	*17*	-	**230,100**	-	**230,100**
Investment properties		-	-	**1,876,166**	**1,876,166**
		15,545,180	**1,749,960**	**1,944,314**	**19,239,454**
Liabilities					
Derivative financial instruments	*17*	-	**170,514**	-	**170,514**
		-	**170,514**	-	**170,514**
For disclosure purposes					
Investments measured at amortised cost		**609,910**	**174,496**	-	**784,406**

23 Fair value measurement (continued)

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

	Notes	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets					
Investments measured at fair value through profit or loss	*10*	307,281	2,583	-	309,864
Investments measured at fair value through other comprehensive income	*10*	15,717,317	2,028,943	51,633	17,797,893
Derivative financial instruments	*10*	-	325,824	-	325,824
Investment properties		-	-	1,869,825	1,869,825
		16,024,598	2,357,350	1,921,458	20,303,406
Liabilities					
Derivative financial instruments	*17*	-	146,764	-	146,764
		-	146,764	-	146,764
For disclosure purposes					
Investments measured at amortised cost		976,872	174,485	-	1,151,357

During the period ended 31 March 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements (31 December 2018: Nil). Movement of financial assets measured based on the Level 3 hierarchy is as follows:

	31 March 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Opening balance	**1,921,458**	2,094,064
Additions	**6,341**	84,261
Settlement/sale	-	(3,067)
Net gain/(loss) on fair valuation	**12,602**	(21,956)
Transfers	**3,909**	(231,832)
Exchange differences	**4**	(12)
	1,944,314	1,921,458

23 Fair value measurement (continued)

The fair value of the Group's assets and liabilities is not materially different from the carrying value at 31 March 2019 since assets and liabilities are either short-term in nature, valued using quoted market prices or, in the case of loans and advances and deposits, frequently re-priced. The fair value of held to maturity investments are disclosed above.

24 Impairment allowance

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

	31 March 2019	31 December 2018			
	Total impairment allowance AED'000	Stage 1 impairment allowance AED'000	Stage 2 impairment allowance AED'000	Stage 3 impairment allowance AED'000	Total impairment allowance AED'000
At 1 January (as per IAS 39)	-	1,448,857	-	1,672,719	3,121,576
Effect of change in accounting policy for IFRS 9	-	(641,930)	1,062,211	476,123	896,404
At 1 January (restated as per IFRS 9)	**3,854,355**	806,927	1,062,211	2,148,842	4,017,980
Charge for the year (net of write backs)	**259,280**	(221,795)	243,364	932,315	953,884
Amounts written off / transferred	**(34,109)**	138,266	(336,493)	(910,758)	(1,108,985)
Foreign currency translation	**10,156**	(299)	(64)	(8,161)	(8,524)
	4,089,682	723,099	969,018	2,162,238	3,854,355

The table below shows allocation of impairment allowance:

	31 March 2019	31 December 2018			
	Total impairment allowance AED'000	Stage 1 impairment allowance AED'000	Stage 2 impairment allowance AED'000	Stage 3 impairment allowance AED'000	Total impairment allowance AED'000
Due from banks	**1,427**	257	-	-	257
Loans and advances measured at amortised cost	**4,046,156**	688,132	951,666	2,157,388	3,797,186
Investment securities at amortised cost	**80**	12,184	-	-	12,184
Other assets	**6,359**	3,870	396	3,056	7,322
Letter of credit, financial guarantees and undrawn loan commitments	**35,660**	18,656	16,956	1,794	37,406
	4,089,682	723,099	969,018	2,162,238	3,854,355

25 Merger and acquisition

On 29 January 2019, the Boards of Directors of Union National Bank ("UNB") and ADCB approved and recommended to the shareholders a merger of the two banks and acquisition of 100% of the issued share capital of Al Hilal Bank ("AHB") by the combined bank.

On 21 March 2019, the shareholders of each bank approved the proposed merger of both banks by way of a merger pursuant to Article 283 (1) of UAE Federal Law No. 2 of 2015 Concerning Commercial Companies (the Law), through issuance of 0.5966 new shares in ADCB for every one share of UNB, subject to the terms and conditions of the merger. Following the merger, ADCB shareholders will own approximately 76% of the combined bank while UNB shareholders will own approximately 24%. On the effective date of the merger, UNB shares will be delisted from the Abu Dhabi Securities Exchange. The combined bank will retain ADCB's legal registrations.

The shareholders also approved the issuance by ADCB of a mandatory convertible bond ("bond") to the shareholder of AHB as the acquisition price to acquire the entire issued share capital of AHB. Such bond shall be converted into up to 117,647,058 post-merger ADCB shares.

The effective date of above merger and acquisition is expected to be 1 May 2019.