البنك العربي المتحد
UNITED ARAB BANK

ANNUAL

REPORT 2017

UNITED ARAB BANK

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His Highness Sheikh Khalifa Bin Zayed Al Nahyan
President of the United Arab Emirates
Ruler of Abu Dhabi

His Highness Sheikh Mohammed Bin Rashid Al Maktoum
Vice President and Prime Minister of the UAE
Ruler of Dubai

His Highness Sheikh Mohammed Bin Zayed Al Nahyan
Crown Prince of Abu Dhabi and Deputy Supreme Commander
of the UAE Armed Forces

His Highness Dr. Sheikh Sultan Bin Mohammed Al Qasimi
Supreme Council Member and Ruler of Sharjah

BRANCHES

Head Office
UAB Tower
Al Majaz Street
Buhaira Corniche
P.O. Box 25022
Telephone: +971 6 507 5222
Fax: +971 6 507 5950
Call Center: 800 474
Swift code: UARBAEAA
www.uab.ae

SHARJAH AREA

UAB TOWER BRANCH
UAB Tower, Al majaz Street
Buhaira Corniche
P.O. Box 25022
Tel No.+971 6 507 5222
Fax No.+971 6 507 5980

CORNICHE BRANCH
Al Muhannad Tower
Buhaira Corniche
P.O. Box 60868
Tel No.+971 6 519 5111
Fax No. +971 6 507 5552

KING FAISAL BRANCH
Bahwan Building
Abu Shagara
King Faisal Street
P.O. Box 23226
Tel No. +971 6 509 4200
Fax No. +971 6 552 1059

AJMAN

AJMAN BRANCH
GMC Hospital Complex
Sharjah-Ras Al Khaima highway Road
P.O. Box 2700
Tel No. +971 6 703 9100
Fax No. +971 6 746 5727

ABU DHABI & AL AIN

KHALIFA STREET BRANCH
Sheikh Faisal Bin Sultan Al Qassimi
Building GIBCA,Khalifa Street
P.O. Box 3562
Tel No.+971 2 613 0100
Fax No. +971 2 626 2649

AL AIN BRANCH
Sheikh Faisal Bin Sultan Al -Qassimi
Building
Sheikh Zayed 1st Street
P.O. Box 16077
Tel No. +971 3 705 2222
Fax No.+971 3 766 5168

RAS AL KHAIMAH

DEHAN BRANCH
Sheikh Faisal Bin Sultan Al Qassimi
Building
Sheikh Mohammed Salem
Al Qassimi Street
Dehan Al Sharqiya
P.O. Box 38282
Tel No.+971 7 206 8111
Fax No.+971 7 227 0969

NAKHEEL BRANCH
Health Building
Al Muntasir Street
Al Nakheel
P.O. Box 615
Tel No.+971 7 205 9222
Fax No.+971 7 235 9875

DUBAI AREA

DEIRA BRANCH
Al Salemiyah Tower
Baniyas street, Deira
P.O. Box 4579
Tel No.+971 4 207 9399
Fax No. +971 4 227 2852

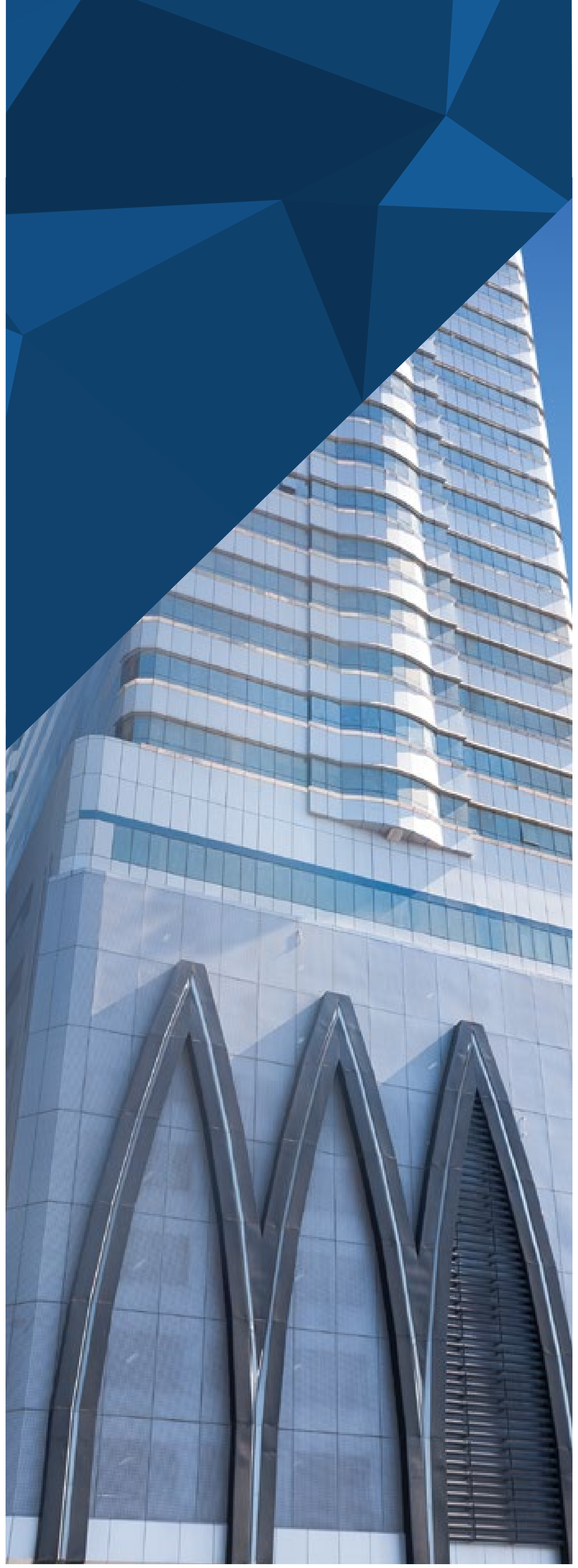
SHEIKH ZAYED ROAD BRANCH
Al Moosa Tower II
Sheik Zayed Road
P.O. Box 34893
Tel No. +971 4 707 1900
Fax No. +971 4 332 1332

OUD METHA BRANCH
Eleganza Apartment, Showroom
No.53
Oud Metha Road
P.O. Box 120767
Tel No. +971 4 405 9600
Fax No. +971 4 358 2371

AL QUOZ BRANCH
Reem Building, Ground floor
Al Qouz First Area, Sheikh Zayed
Road
P.O. Box 392066
Tel No. +971 4 309 2666
Fax No. +971 4 380 8970

DUBAI MEDIA CITY BRANCH
Concorde Tower, Floor 1
Dubai Media City
P.O. Box 390074
Tel No. +971 4 406 3999
Fax No. +971 4 399 5658

TECOM BRANCH
Grosvenor Business Tower,
Showroom No.S07
Al Thanyah First, Tecom
P.O. Box 390091
Tel No. +971 4 278 0400
Fax No. +971 4 551 6810



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H.E. Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
Chairman

MESSAGE FROM THE

CHAIRMAN

Dear Shareholders,

On behalf of the Board of Directors and myself, it is my honor to present United Arab Bank's 2017 Annual Report which reflects the success of UAB's transformation. UAB delivered strong results in 2017, with the successful execution of its Transformation Strategy having paved the way for a return to profitability. Continuing a policy of focusing on key business and providing the best services, has strengthened the bank's financial position and its ability to achieve further growth. Our consistent financial results, strong capital position, strong liquidity and prudent business policies have created a solid foundation for future growth. The bank will remain committed to achieving its long-term vision to become the preferred bank in the UAE by taking advantage of new opportunities in the market, increasing returns to shareholders and engaging customers in their ongoing success.

The Board and I are confident that our business plan is appropriate given the economic environment and we are cautiously optimistic as we move into 2018 to conclude our transformation plan. With the continuing support of UAB's Board and shareholders, I am confident that the Bank is well positioned to generate sustainable returns going forward, especially after the capital increase.

I would like to take this opportunity to extend the utmost gratitude and thanks of the UAB Board to the leadership in the United Arab Emirates for their unlimited support to the national economy, and to the Central Bank of the United Arab Emirates for its faithful efforts in developing our sector. In this context, I am honored to express my deep gratitude and thanks for the ambitious vision and wise leadership of H.H. Sheikh Khalifa bin Zayed Al Nahyan, President of the UAE; H.H. Sheikh Mohammed bin Rashid Al Maktoum, Vice President, Prime Minister, and Ruler of Dubai; H.H. Sheikh Mohammed bin Zayed Al Nahyan, Abu Dhabi Crown Prince, and Deputy Supreme Commander of the UAE Armed Forces, and H.H. Dr. Sheikh Sultan bin Mohammed Al Qasimi, Member of the Supreme Council and Ruler of Sharjah.

> I would also like to express our deepest appreciation for our shareholders, clients, and partners for their support. I must also thank the members of the board, senior management, and employees for their dedicated work and efforts which were key enablers of success.

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
Chairman

MESSAGE FROM THE
ACTING CHIEF EXECUTIVE OFFICER

Sheikh Mohamed Bin Abdulla Al Nuaimi
Acting Chief Executive Officer

Dear Shareholders,

2017 was a year of continued development for UAB. Our transformation has been completed with tangible results. We were able to significantly improve the bank's capital and redeployed it into lower risk core businesses. In addition, we have substantially improved UAB's asset quality as demonstrated by the reduction of non-core portfolios, which dropped to 2% of total loans.

Despite the challenges faced by the bank, UAB's capital adequacy and liquidity ratios were maintained above the Central Bank of UAE minimum requirements. Thanks to our prudent risk management approach, the bank continues to maintain a healthy capital adequacy ratio of 13.2%, whilst the liquidity profile remained strong with a robust Loan-to-Deposit Ratio of 87%. Combined with the success of UAB's Transformation Strategy, we were able to return to profitability in 2017, achieving a net income of AED17 million, as compared to a net loss of AED523 million in 2016. On the operational front, I am pleased with the Management team to propel the bank forward and further improve value creation for our shareholders.

> I would like to thank the Board for their support as the Bank completed the transformation plan. The Bank finalized successfully the increase of its capital base to support future business plans and provide adequate risk buffer given the forthcoming regulatory changes.

Sheikh Mohamed Bin Abdulla Al Nuaimi
Acting Chief Executive Office

BOARD OF DIRECTORS

MEMBERSHIP OF THE BOARD OF DIRECTORS AS OF 31ST DECEMBER 2017

H.E. Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
CHAIRMAN OF UAB

Re-elected to the Board in 2015 for a term of 3 years

Founder of United Arab Bank, H.E. Sheikh Faisal Bin Sultan Bin Salem Al Qassimi has served as the Chairman of the Board of Directors since the Bank's inception in 1975 and has since then remained the largest single individual shareholder of the Bank.

Beyond his instrumental role at UAB, H.E. Sheikh Faisal is currently the Chairman of the Board of Directors of a number of private companies. He also formerly served as the Chairman of the Board of Arab Organization of Industries and Establishment.

H.E. Served in the UAE Armed Forces in different capacities prior to retiring at the rank of Major General including Under Secretary of the Ministry of Defense, Chief of Staff, and Chairman of the Court of Crown Prince at the time – H.H. Sheikh Khalifa bin Zayed Al Nahyan.

H.E. Sheikh Faisal Bin Sultan Bin Salem Al Qassimi graduated from Jordanian Officer Cadet School and Mons Officer Cadet School in UK.

External Board Appointments:

- Chairman – GIBCA Group of Companies
- Chairman – Faisal Holding LLC
- Chairman – Grand Stores
- Chairman – Hospitality Management Holdings LLC

Mr. Omar Hussain Alfardan
VICE CHAIRMAN OF UAB
Chairman - Board Governance and Remuneration Committee
Member - Board Credit Committee

Re-elected to the Board in 2015 for a term of 3 years

Mr. Alfardan is serving as Vice Chairman of the Board of Directors and represents The Commercial Bank (P.S.Q.C.) the largest corporate shareholder of United Arab Bank.

Mr. Alfardan holds a Bachelor's Degree in Business Administration and a Master's Degree in Finance from Webster University in Geneva, Switzerland.

External Board Appointments:

- Chairman of the Board of Directors at Alternatif Bank in Turkey
- Managing Director – The Commercial Bank (P.S.Q.C.)
- Board Member – Alfardan Jewellery, Alfardan Investment and Alfardan Marine Services
- Board Member – Qatar Red Crescent Sociecty
- Advisory Board Member- of Qatar Financial Centre Authority

Sheikh Abdulla bin Ali bin Jabor Al Thani
DIRECTOR
Member - Board Risk Committee

Re-elected to the Board in 2015 for a term of 3 years

Sheikh Abdullah has served on the Board of Directors of United Arab Bank since February 2008 as a representative of The Commercial Bank (P.S.Q.C.), the largest corporate shareholder of UAB. He was re-appointed in 2011 and 2015 by the Annual General Assembly.

He holds a BA in Social Science from Qatar University.

External Board Appointments:

- Chairman – The Commercial Bank (P.S.Q.C.)
- Deputy Chairman – National Bank of Oman

Other External Appointments

- Owner – Vista Trading Company, Qatar
- Partner – Dar Al Manar, Qatar
- Partner – Domopan, Qatar
- Partner – Integrated Intelligence Services, Qatar

BOARD OF DIRECTORS

MEMBERSHIP OF THE BOARD OF DIRECTORS AS OF 31ST DECEMBER 2017 (CONTINUED)

H.E. Sheikh Mohammed Bin Faisal Al Qassimi

DIRECTOR
Chairman - Board Credit Committee
Member - Board Governance and Remuneration Committee

Re-elected to the Board in 2015 for a term of 3 years

H.E. Sheikh Mohammed Bin Faisal Al Qassimi is the founder of MANAFA LLC, a holding company with diversified activities in the fields of hospitality, real estate, private equity and Equity investment.

H.E. Sheikh Mohammed Bin Faisal Al Qassimi graduated from Webster University in Business Administration and Accounting.

H.E. Sheikh Mohammed Bin Faisal Al Qassimi holds key directorships and senior positions at various business groups and associations including the Italian Chamber of Commerce in the UAE and the GCC and Faisal Holding Co LLC.

H.E. Sheikh Mohammed is a member of CMA and the Society of Technical Analysts of UK.

Mr. Mohamed Abdulbaki Mohamed

DIRECTOR
Chairman - Board Risk Committee
Member - Board Audit Committee

Re-elected to the Board in 2015 for a term of 3 years

Mr. Abdulbaki has extensive experience in the banking sector.

He previously served as the CEO of Emirates Development Bank, General Manager of the Emirates Industrial Bank and Acting CEO of the Real Estate Bank. He also served as Chairman / Board Member for a number of institutions and companies including OPEC Fund for International Development (OFID), Emirates National Plastics Industry, Abu Dhabi National Hotels Co., National District Cooling (TABREED), Foodco Holding, ISO Octane Co., American Community School (ACS), Arab Fund for Economic and Social Development, Cristal Hotels and Resorts Co., Interplast and Cosmoplast Co., and Le Chaine Des Rotissuer.

Mr. Abdulbaki has a Bachelor of Science from the Polytechnic Institute of New York, U.S.A.

External Board Appointments:

- Chairman and CEO – Petrolcom Oil and Gas Service

Mr. Ahmed Mohamad Bakheet Khalfan

DIRECTOR
Member – Board Credit Committee
Member – Board Governance & Remuneration Committee

Re-elected to the Board in 2015 for a term of 3 years

Mr. Khalfan previously served as the Deputy General Manager of Emirates Industrial Bank and was Chairman of the Board of Directors of Emirates Modern Poultry Company and Vice Chairman of Emirates Rawabi. He also served as Board Member for various companies in the UAE including ALICO, Gulf Glass, and Takaful Re.

Mr. Khalfan graduated with a Bachelor of Science in Economics with honor from the North Eastern University, Boston.

Mr. Fahad Badar

DIRECTOR
Member - Board Credit Committee
Member – Board Governance and Remuneration Committee

Appointed to the Board in July 2016

Mr. Fahad Badar is a member of the Bank›s Board of Directors and recently joined in July 2016.

Mr. Badar's career at The Commercial Bank (P.S.Q.C.) spans over 18 years. Prior to his current role as Executive General Manager, International Banking, Mr. Badar held a number of key roles in the International Banking, the Government and Public Sector Relations and the Wholesale Banking Divisions.

Mr. Badar holds an MBA from Durham University, United Kingdom and a Bachelors of Arts degree in Banking & Finance from the University of Wales.

Other External Appointments:

- Executive General Manager, International Banking – The Commercial Bank (P.S.Q.C.)
- Board Member – Alternatif Bank (ABank), Turkey
- Board Member – ALease Board, Turkey
- Board Member – National Bank of Oman (NBO), Oman

BOARD OF DIRECTORS

MEMBERSHIP OF THE BOARD OF DIRECTORS AS OF 31ST DECEMBER 2017 (CONTINUED)

Mr. Joseph Abraham

DIRECTOR
Member - Board Audit Committee
Member - Board Risk Committee

Appointed to the Board in March 2017

Mr. Abraham is a member of the Bank's Board of Directors and recently joined in March 2017. He has extensive banking experience across both developed and emerging markets. Before joining The Commercial Bank (P.S.Q.C.) in June 2016, he was CEO of ANZ Indonesia (Australia and New Zealand Banking Group) based in Jakarta, a position he served in from 2008 to 2016.

Mr. Abraham has an MBA from the Graduate School of Business, Stanford University, California and has worked in Indonesia, Singapore, Hong Kong, Ghana, UK and India in various country and regional banking roles with a successful track record covering general management, corporate banking, strategy, product management as well as acquisitions and integrations.

Other External Appointments:

- Group Chief Executive Officer of The Commercial Bank (P.S.Q.C.)
- Vice Chairman of the Board of Alternatif Bank (ABank) , Turkey

Ms. Najla Al Midfa

DIRECTOR
Chairperson - Board Audit Committee
Member – Board Risk Committee

Re-elected to the Board in 2015
for a term of 3 years

Ms. Al Midfa is the General Manager of Sharjah Entrepreneurship Center (Sheraa), a government entity that aims to nurture a vibrant startup ecosystem in Sharjah, and provide entrepreneurs with a launchpad for success. She is also the founder of Khayarat, a social enterprise that enables young Emiratis to make informed career choices and achieve success in the private sector.

In her previous role, as Senior Manager at the Khalifa Fund for Enterprise Development, Ms. Al Midfa led a team of business counselors through the due diligence process: counseling entrepreneurs, evaluating business plans, and selecting ventures for financing. Prior to joining Khalifa Fund, Ms. Al Midfa was a senior associate at McKinsey and Company's New York office, where she worked on a range of strategy-related projects, primarily serving clients across the financial institutions sector. Her previous work experience also includes roles within PricewaterhouseCoopers and Shell.

Ms. Al Midfa holds a Bachelor of Science with honors from the University of Bath in the UK, and an MBA from Stanford University.

External Board Appointments:

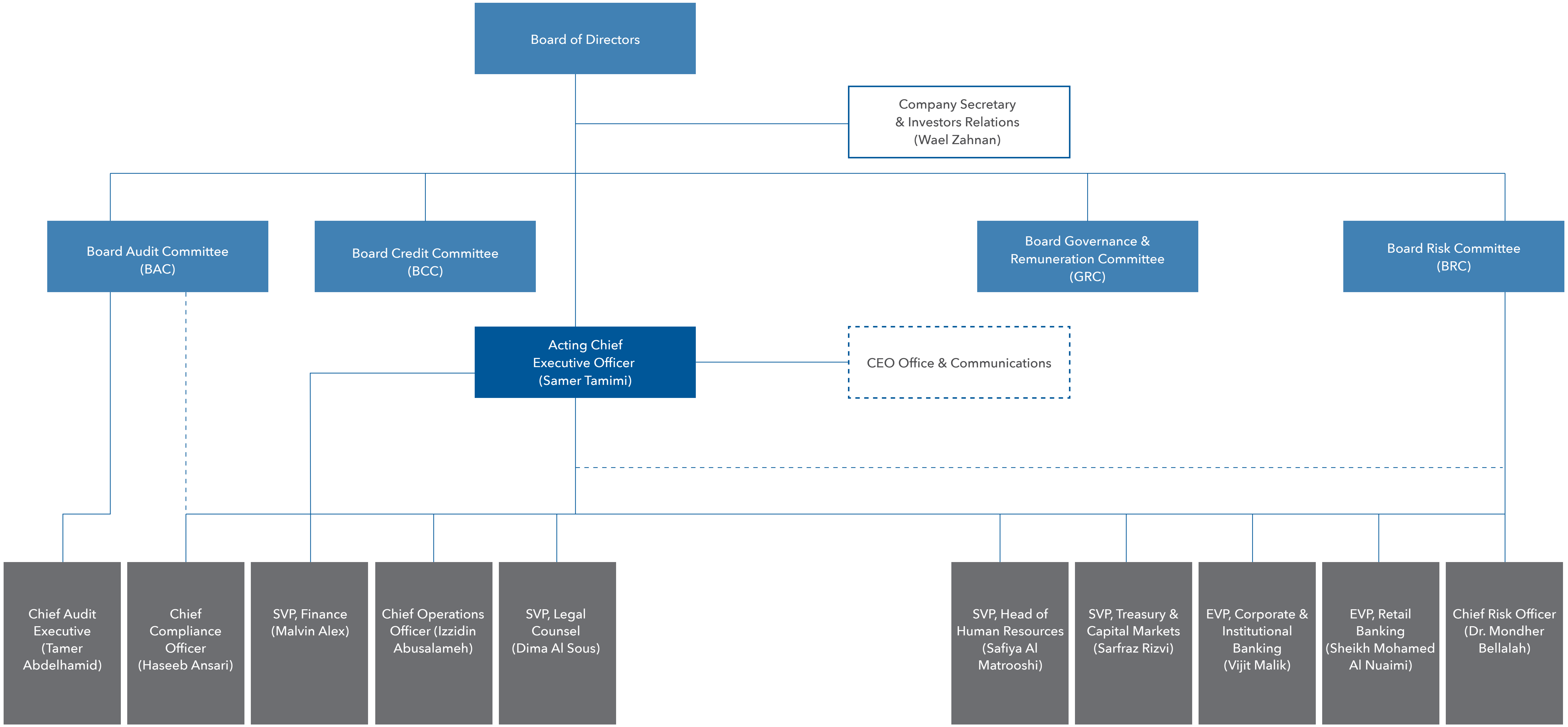
- Vice-Chairperson and Board Member – Young Arab Leaders (UAE Chapter)

Other External Appointments:

- Fellow – The Aspen Institute's Middle East Leadership Initiative
- Member – The Aspen Institute's Global Leadership Network

Innovative data management and digital transformation

ORGANIZATIONAL CHART



Management Committees (formed by the Acting CEO)

Executive Management Committee (EXCOM)

General Management Credit Committee (GMCC)

Asset, Liabilities & Investment Committee (ALICO)

General Management Risk Committee (GMRC)

Special Assets Committee (SAC)

Business Technology Investment Committee (BTIC)

REVIEW OF PERFORMANCE

Corporate & Institutional Banking

UAB's Corporate and Institutional banking division (CIB) continued the successful implementation of the transformation strategy envisioned in early 2016.

The CIB business has broadly achieved the growth aspirations for 2017 through a comprehensive relationship based approach, which included moving away from a "single product" orientation to a "client requirement" based strategy by providing more structured financial solutions through Trade & Supply chain, Cash management and Treasury propositions. This "relationship based" focus is presenting very positive results for the CIB business, with a 14% YOY growth in fee income in 2017. The share of fees to total income has grown to a robust 35% in 2017 from 28% in 2016, showing a marked improvement in the quality of income.

With a mission to deliver superior services and a comprehensive end-to-end product suite to the existing & new clients, the bank has undertaken key initiatives to further strengthen its transaction banking proposition. The key focus was on enhancing the product suite for the customers, and this was achieved by the successful launch of an "enhanced" and "state of the art" corporate online banking portal. The bank has also launched other "enabling" services like cash collection (Smart cash collection machines have been installed at select customer locations) and corporate cheque scanning facilities at select customer locations.

Process re-engineering was undertaken with all "enabler" units within the bank to improve TAT's, and minimize operational risks and errors.

A true value partner in the sphere of "Trade & Supply chain business," dedicated product specialists are assisting clients with customized trade finance requirements and offering working capital management using "supply chain finance" products. The specialists are working very closely with the Financial Institutions (FI) team to capture wallet share and mitigate the risks around export flows.

Additionally, at the heart of our value offering, we intend to further penetrate the employee proposition, which will enable us to better anchor our relationship with the client.

The CIB strategy has also addressed the necessary diversification across sectors, products and funding. The focus has been to diversify the CIB proposition to sectors such as healthcare, education, hospitality etc.

With the intent of enabling our clients to better manage their exposure to currency and interest rate volatility, we have been more proactive in providing hedging solutions. 2017 saw the successful execution of select interest rate hedges with some key clients.

Retail Banking

In response to a challenging economic year, retail banking proactively focused on the below key areas:

- Segmented acquisition: UAB continued its journey to reduce risk and create a substantial business model through a segmented approach with securitized lending, company profiling, multiple layer approval process, vintage performance monitoring and pre-emptive delinquency tracking.
- Securitized lending: Retail banking focused on acquiring secured products like mortgages, salary transfer based personal loans and liened based asset products. We also introduced a Retail collections team for handling pre-emptive, bucket 1 and 2 collections for all products.
- Products and Services: UAB remains committed to a customer-centric approach by ensuring the bank understands its customers' lifestyles and satisfies their financial needs.
- Going forward, Retail banking will focus on creating a risk adverse environment while introducing innovative solutions and offerings to meet the evolving needs of our customers. We will utilize the bank's digital capabilities to improve customer experience and ultimately build stronger relationships.

Corporate & Retail Remedial Unit (CRRU)

CRRU is a standalone unit that was created to manage customer relationships that are deemed non-core, specifically the Bank's higher risk SME and PLSE & delinquent Retail portfolios, as well as legacy CIB and exposures, which are outside the revised risk appetite framework.

The primary function of CRRU is to restore customers to an acceptable credit profile, whilst minimizing losses to the Bank, and thereby protecting the Bank's capital. The desired goal is to enable the customer to return to financial health and a 'Normal' banking relationship.

CRRU has managed to significantly reduce the non-core assets to 2% of the total loan book. Reduction in non-core assets is accompanied by implementation of restructures resulting in revival of stressed accounts, improved recovery from written off accounts, and effective management of rundown portfolio.

Islamic Banking

The Islamic Banking Department of United Arab Bank (UAB) offers comprehensive package of distinguished products and services complying with the rules and regulations of Islamic Shari'ah.

In 2017, numerous developments were seen in Islamic businesses either in the processes of executing the Islamic transaction or the documentations of the products that been offered to UAB's clients to be in-line with the continuous growth in Islamic arena. All developments of Islamic Banking Department are approved by the Fatwa and Shari'ah Supervisory Board (SSB) of UAB, which consist of prominent Islamic scholars with a strong background in Islamic Law and Economics. The SSB is actually responsible for directing, overseeing and reviewing all Islamic transactions of the Islamic Department to ensure strict adherence of its financial transactions to the principles of Shari'ah. SSB is led by Sheikh Dr. Mohammed Al Qari (Chairman of the Board), Sheikh Dr. Ahmed Al Haddad (Executive Member of the Board) and Sheikh Dr. Aziz El Anzi (Member of the Board).

The Islamic Banking Department will continue the development of Islamic businesses of UAB to achieve the full conformity with the general strategy of the Bank to provide the solutions that cater for the needs of all UAB customers whether individuals, corporate or Treasury.

Treasury & Capital Markets

The Treasury and Capital Markets function supports the Bank's overall Funding and Liquidity needs, as well as play a major role in revenue generation. It also deploys efforts in strengthening relationship with Corporate and High net worth clients through a wide, customized range of products and services that address their specific needs. This includes complex interest rates derivatives, currency derivatives, Fixed Income solutions, customized deposits and hedging structures.

As part of the Bank's Asset and Liability management function, Treasury and Capital Markets provides a stable and diversified source of funding for the Bank. This effective funding management has resulted in controlling UAB cost of funds during 2017 despite higher Interest rates scenario, which helped to strengthen the Bank's funding and liquidity profiles. It has also improved the Loans to Deposits Ratio of the bank to 87% as of 31st December 2017, with Advance to Stable resource ratio stood at 82%.

> The Bank's Investment Portfolio increased to over AED 3.2 billion, thus adding overall strong interest income which played a dominant source of revenue for the UAB in 2017. The healthy Investment portfolio comprises mainly of highly liquid fixed income securities, with a mix of government, semi-government, corporate bonds and Sukuks from across the UAE and GCC countries.

In line with the Bank's future strategy, the Treasury unit plans to further increase and diversify its investment activities and continue supporting the needs of other business functions.

The plan is to also put extra emphasis on Treasury Sales in order to increase wallet share on corporate activities.

Treasury Department is also gearing up to ensure full compliance and readiness of the UAB with upcoming regulatory changes in the Financial markets, particularly Basel III and IFRS9, some of which will be enforceable during the next 12 months.

COO FUNCTIONAL OVERVIEW

Improving productivity, strengthening internal controls framework, embracing technological change and enhancing customer experience to deliver sustainable business growth.

In line with the bank's transformation strategy, 2017 was a pivotal year in which we made significant strides. The Strategy Implementation initiatives are well advanced and our business model has performed well.

The operating activities were redefined and reorganised for a structural reform, while optimizing a diverse group of critical bank wide operations and functions. These include Digital Banking & Innovation, Operations, Business Service Delivery (Branch, Contact Center & Digital Channels), Analytics Hub, Information Technology, Internal Control, Change & Organization and Administration including Centralized Procurement and Corporate Real Estate.

2017 theme was around:

(i) Modernising information technology.
(ii) Enabling growth and insourcing.
(iii) Effective controls & proactively managing risks.
(iv) Best-in-class customer experience.

Technology continues to be the key enabler

The pace of technology change is ever increasing and IT modernisation requires careful selection of the right strategic platforms capable of delivering the utmost business value.

2017 witnessed the Bank enter significant key technology partnerships with top global systems providers. Additions to the strategic applications portfolio included Customer Relationship management (CRM), Enterprise Resource Planning (ERP), enhanced employee engagement through Human Capital Management (HCM) technology, Debt Recovery & Collections, Data Management & Business Analytics, Risk Management automation and Compliance capability enhancement.

We have adopted Control Objectives for Information and Related Technologies (COBIT 5) as our governance model for the IT Department resulting in clearer segregation of duties with enhanced accountability leading to effective service delivery.

Advancing Digital Innovation

Smart Digitization is a top strategic priority and we take pride in our ability to differentiate ourselves through the development of new solutions and the adoption of emerging technology at scale. In order to cater to the demand for digital-centric experiences, we created a dedicated Digital Banking unit in 2017 to transform our businesses faster than ever before. Most of our digital solutions will continue to be built with leading digital innovators in the industry, and thus will continue to deliver the best digital products and services at scale.

Optimize and increasing efficiency

2017 was a year of mobilizing a portfolio of optimization programs that increased the pace and quality of technology delivery while also reducing cost. "Core First" and consolidation of applications is the central theme of the Information Technology modernization strategy. Therefore, a complete overhaul is planned which will result in an 85% reduction of legacy applications leading to a strong, scalable and capable IT landscape.

We completely insourced the IT workforce into a new organization structure resulting in a direct cost reduction of 7%.

Contact Center activities have been completely insourced at 33% annual cost reduction, which enhanced customer service, especially to our corporate clients as they are now serviced 24x7x 365.

Securing a changing landscape

We also maintained a relentless and significant focus on the technology of cyber security, for the purpose of protecting the bank and enabling the secure introduction of new capabilities. The Bank has adopted an industry standard cyber-security framework that focuses on the following five pillars: Identify, Protect, Detect, Recover and Response. We are continuously improving these pillars and thereby taking the organisation to the next level in terms of maturity. The Bank has also adopted a "Unified Control Cybersecurity Risk Management Framework" to manage key risks and focus efforts to comply with PCI DSS & NESA control requirements. Enhancing defensive controls, 24 X 7 threat monitoring, continuous security awareness and proactive incident response are the key highlights of last year.

Best in class customer experience

To drive the delivery of superior service levels across all of the bank's customer contact points, the "Business Service Delivery (BSD)" unit was created with focus on three verticals: Branch, Contact Center & Digital Channels. BSD will assume complete responsibility towards delivering best in class customer experience, and thereby contributing to the achievement of annual business plans and strategic objectives.

Selected Awards and Recognition

2017 Innovation Award

The award given by Informatica, a leading enterprise data management provider, recognized United Arab Bank's innovative achievements in data management and digital transformation.

Best Use of Technology in Banking Sector Award

The Bank received the Genesys Middle East Award 2017 for Best Use of Technology in the Banking Sector category. The bank was selected for this prestigious award due to its efforts in enhancing customer experience, the productivity of its staff, and enhancing the overall quality of services.

HUMAN RESOURCES

2017 represented yet another year where UAB's reliance on the quality of its Human Capital helped support the Bank's overall performance. Growth in UAB is perpetuated by a dedicated and talented team of people, who contribute expertise, robust systems, processes and pioneering solutions. We are committed to harnessing these talents in an environment that encourages creativity.

The banking sector is a wide financial and economical industry, which depends majorly on the workforce. Thus managing and maintaining this workforce becomes the priority for us at Human Resources. We support opportunities and support to all who work smart to reach their full potential.

Customer satisfaction is a priority at United Arab Bank. The people working at the front office become the face of the bank and thus it is the responsibility of the HR to make sure there are eligible people working up front. We ensure the staff go through necessary training before they begin their work, so that they are aware of the nuances of the core banking industry and customer relationship, better. Quantity and Quality requirement is the continued focus.

In addition to the core HR activities, the bank has continued to develop and invest in the talent and capabilities of its UAE national workforce. This investment was done through initiatives such as the participation in the 'Government Accelerators' program in coordination with the Central Bank and the in-house designed 'Reyadah' national development program.

'Reyadah' is a unique and customized development plan spanning a period of 12 months and comprising technical banking skills and leadership development initiatives. Training is imparted through different mediums following a blended approach of classroom, outdoor, e-learning, on-job-training, mentorship etc. Senior Management support and commitment is the most critical lever in any initiative. Our Leaders and Managers strongly believe that having better talent pulls all other performance levers and allow the business to outperform its competitors. External professional coaches are also hired to train and mentor the UAE nationals. The past 3 years has witnessed the graduation of 35 Emirati colleagues from the Reyadah Program and all efforts are ongoing to ensure the development of a capable Emirati workforce in the bank.

As a part of the UAE Cabinet initiative and approval, a new strategy identified as the 'point based system' was implemented and 2017 witnessed UAB as fully conformant to this transformational strategy having achieved 104% of the required target. The pro-active involvement of Senior Management has been instrumental in ensuring success of this initiative.

The annual Employee Satisfaction survey that was conducted for 2017 showed a 78% satisfaction rate at UAB.

The 4 key values of Integrity, Customer Focus, Competence, Consistency and Courteousness help us create the future we want to experience.

SOCIAL RESPONSIBILITY

Social responsibility has been and always will be a pillar of UAB's activities, and the Bank will continue to build upon its initiatives to give back to the community where both of our people and customers live and work.

UAB is committed to serving the wider UAE society through the participation, support and sponsorship of the following initiatives:

- UAB was the main sponsor for the 28th Annual Al Amal Camp in Sharjah, organized by the Sharjah City for Humanitarian Services (SCHS), which aims to provide the participating special needs children with a chance to create new friendships, develop social kills, promote self-reliance and enhance their self-esteems.
- UAB launched a blood donation campaign, in coordination and cooperation with Ministry of Health and Prevention which is represented by the Sharjah Blood Transfusion and Research Centre.
- UAB sponsored the production and distribution of 15,000 CDs of the Holy Quran in Sheikh Zayed Grand Mosque during the month of Ramadan.
- UAB Participated in the Zakat Fund / Abu Dhabi University Ramadan Campaign, which provides help for students in need who meet the Zakat criteria specified by the Zakat Fund.

CORPORATE GOVERNANCE

Sound Corporate Governance plays a fundamental role in the culture and business practices of UAB. The Bank's Corporate Governance framework relates to the way the business and activities of the Bank are directed and managed taking into account all stakeholders and the role of the Bank in the community.

UAB's Corporate Governance Framework

The Governance framework ensures adequate Board oversight over the risks inherent to our business. It focuses on the separation of the Board of Directors, the Executive Management's duties and responsibilities, the effectiveness of the Board and Management Committees, role of the external and internal auditors and the transparency accuracy and timely disclosure of information. In addition it aids cooperation with supervisory and regulatory authorities to ensure full compliance with applicable regulations and best practices.

UAB complies with each of the Central Bank, Securities and Commodities Authority and Abu Dhabi Securities Exchange regulatory requirements continuously looking to adopt industry best practices.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates laws and are available on the Investor Relations section on our website (www.uab.ae).

In 2017 Board has developed an implementation plan to further enhance its corporate governance framework.

Transparency and Disclosure

As part of our efforts to continuously enhance disclosures and transparency, the delivery of accurate and timely information to our stakeholders represents a key priority of the Bank. Information is distributed through a number of channels including media, press releases and other various avenues.

In addition, a dedicated Investor Relations section is available on the Bank's website (www.uab.ae) through which financial and non-financial reports are cascaded.

Financial reports include published annual reports and financial results in both English and Arabic. Other important documents to shareholders such as the Memorandum and Articles of Association, shareholder structure, share price performance and analysts' reports are also available on the website.

CORPORATE GOVERNANCE (CONTINUED)

BOARD OF DIRECTORS

Role of the Board of Directors

The Board of Directors is empowered, under the Bank's Articles of Association, with the widest powers necessary to carry out the activities and functions required to fulfill the objectives of the Bank.

The Board responsibilities include establishing the Bank's strategy and ensuring that the Bank manages risk effectively through approving and monitoring the Bank's risk appetite. Adopting the Bank's Corporate Governance framework falls within the responsibilities of the Board to help ensure the implementation of solid internal controls and disclosures, the establishment of adequate policies and procedures necessary for the Bank's sound operations and compliance with applicable regulatory and statutory requirements at all times.

The Board has also approved the Terms of Reference of the Board of Directors and all Board Committees, which set out their respective process, duties and responsibilities.

Role of the Chairman

The Chairman is elected by the Board in accordance with the Bank's Articles of Association. The position of Chairman of the Board and Bank's Chief Executive Officer is not held by the same individual.

The Chairman provides leadership for all aspects of the Board's activities and ensures that the Board meets its commitments to comply with applicable laws and regulations and that all resolutions adopted by the Board are effectively implemented.

The Chairman's responsibilities include:

- Providing leadership to the Board, setting its agenda, chairing its meetings and ensuring the effective implementation of Board's decisions;
- Ensuring the Board has within its membership the relevant knowledge of the banking industry as well as with financial and accounting expertise;
- Facilitating the effective contribution of Directors and the building of constructive relations between Directors;
- Promoting the highest standards of Corporate Governance and ensuring the Board discharges its duties and complies with relevant laws and regulatory requirements;
- Ensuring effective communications with shareholders;
- Arranging regular evaluations of the performance of the Board; and
- Building an effective Board and planning succession to all Board appointments.

Directors Obligations and Duties

Board Members commit to the following obligations in carrying out their duties as Directors of the Board, in accordance with the highest Corporate Governance standards:

- Having the necessary skills, qualifications and knowledge of the Bank's affairs and business;
- Acting honestly and in good faith with a view to protecting the best commercial interests of the Bank;
- Observing confidentiality, conflict of interest and transparency requirements when assuming their responsibilities as Directors;
- Acting in accordance with the obligations stipulated under the Articles of Association and all applicable laws and regulations;
- Not being convicted of any crime or felony or a crime involving moral turpitude;
- Disclosing any direct or indirect interests that they may have in connection with the Bank and which could conflict with the proper performance of their duties; and
- Attending regularly and participating effectively in Board meetings and general meetings of the shareholders.

Board Composition and Nomination

The Board is composed of 9 non-executive board members. The members were elected at the Annual General Assembly in March 2015, beginning their respective three-year term of office effective January 1, 2015. Members are eligible for re-election.

4 members represent The Commercial Bank, being the major shareholder, 2 members represent the founders of the Bank with the remaining representing the private sector and minority shareholders.

The Board collectively possesses professional knowledge, business expertise, industry knowledge and financial awareness to carry out its oversight responsibilities.

All Board members are in regular attendance of the meetings.

BOARD ACTIVITIES IN 2017

The Board of Directors met 6 times in 2017 and received information in between meetings on regular basis from the Board and Management Committees in relation to the Bank's business developments.

2017 Board Meetings Calendar:

08th January 2017	Board of Directors meeting to approve miscellaneous items on the agenda.
05th February 2017	Board of Directors meeting to approve miscellaneous items on the agenda.
10th April 2017	Board meeting to approve miscellaneous items on the agenda.
12th July 2017	Board meeting to approve Q2 2017 financial results and the YTD financial performance.
09th October 2017	Board of Directors meeting to approve miscellaneous items on the agenda.
07th November 2017	Board meeting to approve proposing an increase in the Bank's capital to the General Assembly on 15th January 2018.

BOARD MEMBER	BOD	GRC	BAC	BCC	BRC
Sheikh Faisal Bin Sultan Bin Salem Al Qassimi	C				
Mr. Omar Hussain Alfardan	VC	C		M	
Sheikh Abdullah Bin Ali Bin Jabor Al Thani	M		M		M
Sheikh Mohammed Bin Faisal Al Qassimi	M	M		C	
Mr. Mohamed Abdulbaki Mohamed	M		M		C
Mr. Ahmed Mohamad Bakheet Khalfan	M	M		M	
Ms. Najla Al Midfa	M		C		M
Mr. Fahad Badar	M	M		M	
Mr. Gerard Rizk (1)	M		M		M
Mr. Joseph Abraham (2)	M			M	
Number of Meetings in 2017	6	5	4	14	6

(1) Served on the Board until March 2017
(2) Appointed to the Board on March 2017

C: Chairman
M: Member
BOD: Board of Directors
GRC: Board Governance & Remuneration Committee
BAC: Board Audit Committee
BCC: Board Credit Committee
BRC: Board Risk Committee

BOARD COMMITTEES

The Board of Directors established Board Committees to assist the Board in carrying out its duties and obligations and offer a more detailed review of important areas of business and control.

Board Governance & Remuneration Committee ("GRC")

The GRC acts on behalf of the Board on all matters related to governance, remuneration, nomination and strategic plans, except for those powers and actions that are restricted to the Board on the basis of legal provisions or the Articles.

The GRC is responsible for supporting the Board in overseeing the remuneration scheme, in order to ensure that the subject remuneration is appropriate and consistent with the Bank's culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements. GRC shall provide recommendations to the Board for new Board and Senior Management members, while ensuring that the roles and responsibilities of Board members are in line with the regulatory requirements. GRC will also provide support and directions to the Board in terms of strategic and budgetary initiatives, plans and decisions.

GRC meets at least 4 times a year. In 2017, the committee held 5 meetings.

Board Audit Committee ("BAC")

BAC is responsible for managing the financial reporting, compliance and internal audit reviews of the Bank and, in doing so, may exercise all the powers delegated by the Board, subject to any relevant laws and regulations.

The internal audit function has a direct reporting line to the BAC. While the Compliance function has a dotted reporting line to the BAC.

BAC meets at least 4 times a year. In 2017, the committee held 4 meetings.

Board Credit Committee ("BCC")

The BCC provides leadership for the Bank within a framework of prudent and effective controls which enables robust credit control,

The BCC is responsible for evaluating and granting counterparty credit facilities and approving the Bank's investment activities within authorized limits and, in doing so, exercise all the powers delegated by the Board, subject to any relevant laws and regulations.

BCC meets on an ad hoc basis. In 2017, the committee held 14 meetings.

Board Risk Committee ("BRC")

The BRC monitors and manages all aspects of enterprise risk management including, but not restricted to, credit risk; market risk; operational risk; legal risk; regulatory risk; liquidity risk; financial risk. Moreover, the BRC reviews and approves the policies on all risk issues and maintains oversight of all Bank risks through reports received from the General Management Risk Committee.

BRC meets at least 6 times a year. In 2017, the committee held 4 meetings.

Performance Evaluation of Board and Board Committees

GRC reviews, on an annual basis, the performance of the Board against its Terms of Reference and reports accordingly to the Board of Directors.

MANAGEMENT COMMITTEES

The Board approved the Terms of Reference of all Management Committees. The Bank has 6 Management Committees that report regularly to the Board, or the relevant Board committee, on their activities.

Executive Management Committee ("EXCOM")

The Executive Management Committee is responsible for recommending the Bank's strategy and monitoring its performance. It will exercise general control over UAB and manage the Bank's business to ensure compliance with regulatory and legal requirements, and internal policies.

EXCOM meets at least once a month.

General Management Risk Committee ("GMRC")

The General Management Risk Committee is the highest approving authority at the management level on all aspects of enterprise risk management including, but not restricted to: credit risk; market risk; operational risk; legal risk; regulatory risk; liquidity risk; financial risks; corporate governance; and audit matters of the Bank (and any subsidiaries and affiliates in which it has strategic investments).

The GMRC provides recommendations on all risks and investment policies and portfolio issues to the BRC, and to other Board Committees as appropriate.

GMRC meets at least 4 times a year.

General Management Credit Committee ("GMCC")

GMCC is the highest management level authority on all counterparty risk exposures, credit product programmes and underwriting exposures on syndications and securities transactions.

GMCC meets as and when required.

Business Technology Investment Committee ("BTIC")

The BTIC is a committee established by the CEO to align technology initiatives with the Bank's business strategy. It aims at setting UAB strategic technology direction and monitor progress for the efficient and effective operations of the Bank's systems, aligned to business needs. The Committee ensures all IT related projects track against project plans, and deliver benefits and continuously improve services and solutions delivered to the business with consideration to any Group and industry best practice.

BTIC meets at least 4 times a year.

Asset And Liability Committee ("ALCO")

ALICO is the decision-making body related to balance sheet structure, funding, pricing, hedging, investment, and setting limits related to the overall ALM function of the Bank; and the has the mandate for recommending for approval or itself approving various functions/ transactions mention under the responsibilities.

ALCO meets at least six times a year.

Special Assets Committee ("SAC")

The Special Assets Committee is the highest management level authority on both Retail, Corporate and SME provisions. The authority of the SAC is derived from the Board.

SAC meets on a monthly basis.

Performance Evaluation of Management Committees

The Corporate Governance reviews on an annual basis the performance of all Management Committees against their terms of reference and reports accordingly to BRC.

SHAREHOLDERS PROFILE

Meeting of the Shareholders

UAB Shareholders meet at least once a year during the Annual General Assembly ("AGA"), the supreme governance body of the Bank. The Articles of Association provides the statutory framework for the calling and the conduct of the AGA.

The AGA is held during the first four months of the year, to:

- Consider and approve the Board of Directors' Report on the Bank's activities and financial position;
- Consider and approve the external auditor's report on the Bank's balance sheet and financial position;
- Discuss and approve the Bank's balance sheet and income statement;
- Consider and approve the proposal of the Board of Directors regarding the distribution of dividend;
- Approve or abstain from granting a discharge or absolution of the Board Members from their obligation or liabilities;
- Approve or abstain from granting a discharge or absolution of the external auditors from their obligation or liabilities;
- Appoint the external auditors and determine their fees; and
- Elect Board members, as applicable.

Shareholders may pass a special resolution on items other than those falling under the remit of the AGA, as stipulated under the Articles of Association of the Bank.

The 2017 AGA took place on April 10, 2017 during which the amendment of the Articles of Association was approved.

Major Shareholders

List of major Shareholders who owned 5% and above of the share capital as at December 31, 2017:

Commercial Bank	40.00%
Sheikh Faisal Bin Sultan Al Qassimi	10.27%
Al Majed Investment Company (WLL)	5.42%
Jumaa Al Majed Abdullah Muhairi	5.31%

Shareholders by Nationality as at December 31, 2017:

UAE	81.25%
QATAR	1.44%
OTHER GCC	2.4%
OTHER ARABS	8.65%
OTHERS	6.25%

Shares by Nationality as at December 31, 2017:

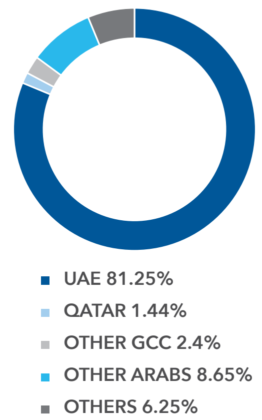
UAE	52.86%
QATAR	43.86%
OTHER GCC	0.01%
OTHER ARABS	0.7%
OTHERS	2.57%

Shares by Investor Type as at December 31, 2017:

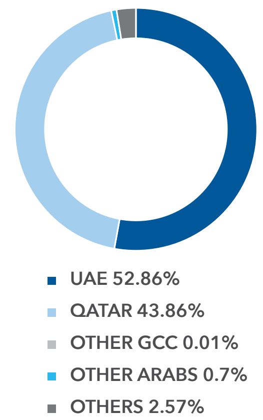
BANKS & FI	41.05%
INDIVIDUALS	33.82%
CORPORATIONS	25.13%

* Total might not equal 100% due to rounding

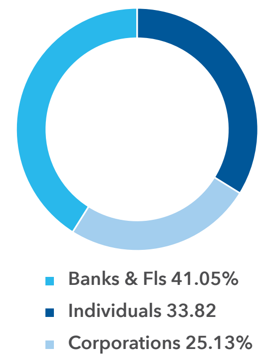
Shareholders Breakdown by Nationalities



Shares Breakdown by Nationalities



Shares Breakdown by Economical Entities



*Total might not equal 100% due to rounding

RISK MANAGEMENT

UAB regards effective risk management as a key element to its sustainable performance; success, transformation strategy and value creation.

The role of risk management is to ensure that the Bank's risk-related decisions are consistent with the Bank's strategy, and are in line with its Risk Appetite framework, Best Practice and International standards set by regulators.

Effective risk management is fundamental to the success of the Bank and is recognized as a key element in UAB's overall approach to achieving its strategic goals.

The risk management framework is predicated on the Three Lines of Defense model. Within this model, Business units (first line) originate and manage risks, while the risk management and other control functions (second line) provide independent oversight and objective challenges to the first line of defense, as well as monitoring and controlling of risk. The Internal audit department (the third line) provides assurance that policies, procedures and controls are achieved by the other defenses.

The Bank has an established Risk governance framework with an active and engaged Board of Directors, supported by an experienced senior management team and risk management that is independent of the business lines. Decision-making is exercised through a number of Board and Executive Management Committees.

The Board of Directors approves key risk policies, limits and risk appetite statement, and ensures, either directly or through the committees, that decision-making is aligned with the Bank's strategic goals. Moreover, detailed reports are submitted to the Board periodically on the Bank's risk profile and emerging risks.

The Chief Risk Officer (CRO) is responsible for risk management under the oversight of the Board Risk Committee. The CRO heads the risk management function and also has direct access to the Board.

The risk management consists of specialized teams for managing credit, market and operational risks. Risk management also includes the control and reporting functions of risk analytics, credit administration and monitoring.

The Bank continuously strengthens its risk management practices, policies and procedures and other tools to upgrade its overall capabilities, which are fundamental to achieving its business strategy.

UAB has a well-defined and independent Credit Administration Department ("CAD") that manages credit risk arising from its existing and future corporate credit exposures through obtaining Legal documentation & Limit management functions reporting to the Chief Credit Officer.

CAD functions are broadly managed by two units, namely Credit Documentation and Credit Control Units to attend to core responsibilities of borrowing documentation, Custody of borrowing & related security documents and limit management in adherence to UABs Credit policy. Highlighting exceptions and tracking them until resolution is also part of the daily activities.

Operational Risk

The Bank defines Operational Risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk in line with Basel II. Operational Risk is relevant to every aspect of the Bank's business and covers a wide spectrum of issues. Losses arising through fraud, unauthorized activities, errors, omission, inefficiency, system failure or from external events all fall within the Operational Risk definition.

In order to mitigate operational losses, the Bank has to have:

- A Corporate Governance structure in place to ensure detail policies and procedures are regularly updated to enhance the internal control environment.
- Risk Self-Assessment processes with Key Indicators used to provide early warning signs to enable management to take appropriate/ timely action.
- Operational Risk training to develop and enhance staff awareness and improve the control environment.

COMPLIANCE

Compliance Risk is the risk of legal or regulatory sanctions, fines/censures and losses associated with damage to the Bank's reputation as a result of its failure to comply with the applicable laws, regulations or prescribed practices.

The Compliance function at United Arab Bank provides assurance to the Executive Team and the Board that the expectations of the regulator, i.e. the Central Bank of the UAE, are fully met (along with relevant international regulations) and that the risk of the Bank being used to facilitate financial crime is effectively mitigated. Compliance, as an independent and second line of defense function, helps protect the bank by establishing a control environment that mitigates principal and key risks. Specifically, Compliance provides regulatory guidance and operates a risk-based program designed to prevent, detect, and address violations of applicable laws, rules, regulations, policies, and procedures. One of the key responsibilities of the Compliance function is to provide consultative support and oversight to the Senior Management towards effectively mitigating and managing the compliance risks faced by the Bank.

Administrative independence of the Compliance function is ensured at all times, along with unrestricted access to all necessary data, information and systems across the Bank. Compliance also maintains an efficient reporting structure that enables prompt escalation and resolution of issues.

With significant continuing regulatory changes, the criticality of the Compliance function and the need for an effective Compliance framework within a financial institution is unprecedented. The vulnerability of financial institutions has increased manifold with extra-territorial enforcement of overseas regulatory agencies creating a more complex arena. Consequently, the need for senior management of banks to fully understand and effectively mitigate evolving Compliance risks is of paramount importance. United Arab Bank (UAB) remains fully cognizant as well as vigilant towards such local and international risks vis-à-vis our banking activities/services. Furthermore, the Bank fully acknowledges the importance of adherence to all CBUAE regulations without exception. The Board and the Senior Management continuously promote and uphold a strong Compliance culture across the Bank while setting the desired "Tone from the Top". As a result, we continue to undertake required endeavors to maintain an environment that is conducive towards employee empowerment and transparency in relation to effective risk management across the estate.

UAB has previously undertaken a massive de-risking exercise across its customer portfolio as well as its core product suite. This was aligned with our strategic objective to build a simpler, lower risk, efficient and sustainable bank that focuses on its strength of serving the corporate market and that is supported by retail and treasury offering. It is extremely noteworthy that there has been significant investment and enhancement made to the bank's Compliance function in line with the dynamic controls & governance requirements. The "Cost of Compliance" has gone up as a consequence of the new risk spectrum across the banking industry. Therefore, we have ensured significant increase in the Compliance staff bench-strength (headcount related to AML/KYC, Sanctions and Regulatory Compliance) commensurate with the risk/business footprint. In parallel, we have also enhanced our system capability, especially from the monitoring & surveillance standpoint (AML & Sanctions screening) along with robust policy framework. Simultaneously, the required level of focus and impetus is being applied on the FATCA (Foreign Accounts Tax Compliance Act) and CRS (Common Reporting Standards) remit.

At an industry level, United Arab Bank continues to play a key role with regards to collaboration with the UAE Banks Federation (UBF) as a member bank, and working on important initiatives, proposals and priorities across the banking fraternity. As far as the overall direction of travel is concerned, our trajectory remains extremely positive and deployment of the extensive firm-wide "Compliance Enhancement Program", which we had embarked on earlier, is approaching completion to further strengthen the Compliance & Risk environment.

CORPORATE GOVERNANCE (CONTINUED)

LEGAL

The Legal team provides legal support to the Bank's departments and senior management, with its key objective is to give advice and guidance on various legal issues. The Legal team acts as the Bank's legal counsel and has the following priorities:

- Advise the Bank on effective solutions for current and anticipated material concerning legal and regulatory issues.
- Ensure major corporate actions, transactions and projects are managed in an efficient manner and are in line with applicable laws and regulations, in order to minimize the Bank›s legal and regulatory risks.
- Draft, review and update the Bank's documentation, templates, general terms and conditions.
- Follow up on legal cases filed in the court of law.
- Review all contracts and agreements in which the Bank will become party to.

INTERNAL AUDIT

United Arab Bank has a well-established Internal Audit Department, which independently reviews the effectiveness of Corporate Governance, Risk Management and Internal Controls that are in line with the Bank's policies, procedures and regulatory requirements. The Internal Audit also provides the Board and Management with advisory services on financial reports, operations, and business processes, besides audit reports.

The internal audit function reports directly to the Board Audit Committee. The Bank's internal auditors are not assigned to any executive responsibilities in order to maintain their independency and objectivity in fulfilling their duties and responsibilities.

The Internal Audit function forms the third line of defense, and provides independent assurance to the Board and Senior Management over the first and second lines of defense, based on a risk-based audit plan and Continuous Auditing methodology that are approved by the Board Audit Committee.

In 2017, The Internal Audit department reported a high implementation of corrective actions through a process of timely escalation of "Continuous Auditing Reports" to Senior Management. Furthermore, the Audit Management Software "TeamMate" has been utilized extensively in reporting exceptions and tracking on corrective actions.

The Internal Audit Team is a group of qualified and certified auditors that have been carefully selected to carry out their responsibilities professionally. The Internal Audit team members are encouraged to update their skills and knowledge with the latest audit standards and banking industry information through continuous development programs.

DIRECTORS REPORT YEAR ENDED 31 DECEMBER 2017

On behalf of the Board of Directors of United Arab Bank (UAB), I am privileged to present to our shareholders our Annual Report for the year ended 31 December 2017.

The Board and I are pleased with the financial performance in 2017 which was the final year of transition for UAB. The Bank embarked on its journey to become a safer, stronger and sustainable Bank. Central to this Transformation Strategy were four key pillars: pro-actively deleverage higher risk non-core portfolios; reduce costs; enhance the Bank's risk and control frameworks; and strengthen key banking fundamentals.

The successful execution of the Transformation Strategy has paved the way for a return to profitability, in consequence, I am pleased to advise that the Bank reported a Net Profit of **AED17m** for the year-end of 2017 compared to a Net Loss of AED523m in 2016.

Whilst the last 2 years have clearly been a challenging period for the Bank, much has been achieved. We have substantially strengthened our Balance Sheet, focused on our core activities and de-risked the business recording a significant reduction of 'non-core' higher risk portfolios of 88%.

The Bank's Provisions for credit losses of **AED289m** represent a healthy reduction of 71% compared to 2016 supported by prudent and enhanced risk management.

The Board and I are confident that our revised and efficient UAE focused business model positions us well to continue doing the right thing for our customers and deliver sustainable returns for our shareholders.

The Board of Directors recommend the following appropriations of profit for the year ended 31 December 2017, subject to the approval from the Central Bank of UAE:

	2016 AED'000	**2017 AED'000**
Opening balance in Retained Earnings at 1 January	354,794	**(167,856)**
(Loss) / Profit for the year	(522,691)	**17,343**
Transfers from revaluation reserve	41	**41**
Dividend distributed relating to 2015	0	**0**
Balance available for appropriation	(167,856)	**(150,472)**
Proposed appropriation of profit	0	**0**
Transfer to Special Reserve	0	**-1,734**
Transfer to Statutory Reserve	0	**-1,734**
Director's remuneration	0	**0**
Closing balance in Retained Earnings at 31 December	(167,856)	**(153,940)**

After the proposed appropriation of profit, and subject to the General Assembly's approval, total Shareholder's Funds will increase to AED2,165m at 31 December 2017 compared with AED2,087m at the end of 2016. The Directors propose nil dividend award for the year 2017.

On behalf of the Board of Directors, whose unwavering commitment and guidance remain invaluable, my sincere appreciation goes to our valued customers and shareholders for their patronage, the top management and the employees for their commitment and dedication, and to the Central Bank of the UAE for regulating and supporting the UAE banking sector.

In conclusion, we wish to express our appreciation to the President of the United Arab Emirates, His Highness Sheikh Khalifa Bin Zayed Al Nahyan for his leadership, vision and support. We also wish to thank His Highness Sheikh Mohammed Bin Rashid Al Maktoum, UAE Vice President, Prime Minister and Ruler of Dubai; His Highness General Sheikh Mohammed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces; and His Highness Sheikh Dr. Sultan Bin Mohammed Al Qasimi, Ruler of Sharjah for their support and guidance.

Faisal Bin Sultan Bin Salem Al Qassimi
Chairman
19 February 2018

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OUR OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of United Arab Bank P.J.S.C (the "Bank") and its subsidiary (together referred to as the "Group") as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

OUR AUDIT APPROACH

OVERVIEW

KEY AUDIT MATTERS	• **Impairment of credit facilities** • **Disclosure of the likely impact on credit impairment of IFRS 9**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on consolidated the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)

Impairment of credit facilities	How our audit addressed the Key Audit Matter?
(refer to note 7 of the consolidated financial statements) Impairment allowances represent management's best estimate of the losses incurred within the credit portfolio at the balance sheet date. They are calculated on a collective basis for portfolios of performing loans of a similar nature and on an individual basis for non-performing loans. The calculation of both collective and individual impairment allowances is inherently judgemental. The calculation of collective provision is based on statistical models which approximate the impact of current economic and credit conditions on portfolios of similar loans. The inputs to these models, including probabilities of default, and loss given default, are subject to management judgement. For specific impairments, judgement is required to determine when an impairment event has occurred and then to estimate the expected future cash flows related to that loan. We focused on this area because of the significance of the credit portfolio and because management make subjective judgements over both the timing of recognition of impairment and the estimation of the size of any impairment. Please refer to note 7 in the accompanying consolidated financial statements for additional details.	We assessed and tested the design and operating effectiveness of the controls over impairment data and calculations. These controls included those over the identification of which credit facilities were impaired, particularly with respect to credit facilities in certain non-core higher risk portfolios, the data transfer from source systems to impairment models and model output to the general ledger, and the calculation of collective and specific impairment provisions. In addition, we performed detailed testing on the collective impairment models used to calculate impairment. This testing included testing of the extraction of data used in the model, assessing the appropriateness of the assumptions used in the models and re-performance of the impairment calculation. Where impairment was individually calculated, we tested controls over the timely identification of potentially impaired loans. We also tested a sample of credit facilities to ascertain whether the loss event (the point at which impairment is recognised) had been identified in a timely manner. Where impairment had been identified, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment on a sample basis, challenging the assumptions and comparing estimates to external evidence where available. We examined a sample of credit facilities which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate including the use of external evidence in respect of the relevant counterparties.

KEY AUDIT MATTERS (CONTINUED)

Impairment of credit facilities

Disclosure of the likely impact on credit impairment of IFRS 9

Our audit focused on the disclosure of the impact of the implementation of IFRS 9 – Financial Instruments (IFRS 9) on credit impairment, as this is a new and complex accounting standard, which has a material impact and has required considerable judgement and interpretation in its implementation.

As disclosed in note 3.1.2, management has estimated that the increase in impairment due to the first time adoption of IFRS 9 on 1 January 2018 will result in a reduction of equity of approximately 8% to 10% as at that date.

IFRS 9 introduces a new, forward looking, expected credit loss (ECL) impairment model.

This model takes into account reasonable and supportable forward-looking information which will generally result in earlier recognition of losses.

There are a number of significant judgements which are required in measuring ECL under IFRS 9 including:

- Determining criteria for significant ncrease in credit risk (SICR);
- Factoring in future economic guidance; and
- Techniques used to determine the probability of default (PD) and loss given default (LGD).

Therefore, there is a requirement for new models to be built and implemented to measure the expected credit losses on loans measured at amortised cost. There is a large increase in the data inputs required by these models which increases the risk of completeness and accuracy of the data that has been used to develop assumptions and is used to operate the model.

How our audit addressed the Key Audit Matter?

We assessed the design and structure of the control that management has established in respect of governance around impairment models.

We have used out modelling experts to review the modelling methodology for certain portfolios which included assessing the reasonableness of key assumptions. In addition, we have performed substantive procedures over the accuracy of certain model classifications.

We have tested the completeness and accuracy of the data used in calculation of the ECL.

Further, we have independently validated the disclosure against the requirement of IFRS.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS
OF UNITED ARAB BANK P.J.S.C. (CONTINUED)

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises The Directors' Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Group's complete Annual Report which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of conclusion thereon.

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

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

When we read the Group's complete Annual Report, if we conclude that that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance, are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS
OF UNITED ARAB BANK P.J.S.C. (CONTINUED)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

(i) we have obtained all the information we considered necessary for the purposes of our audit;

(ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;

(iii) the Group has maintained proper books of account;

(iv) the financial information included in the report and Directors' report is consistent with the books of account of the Group;

(v) note 8 to the consolidated financial statements discloses the shares purchased by the Bank during the year;

(vi) note 23 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

(vii) as disclosed in note 30 to the consolidated financial statements, there were no social contributions made during the year; and

(viii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2017 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank, its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2017.

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

PricewaterhouseCoopers
19 February 2018

Jacques E Fakhoury
Registered Auditor Number 379
Dubai, United Arab Emirates

UNITED ARAB BANK P.J.S.C.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION - At 31st december 2017

	Notes	2017 AED'000	2016 AED'000
ASSETS			
Cash and balances with the UAE Central Bank	5	**2,016,628**	2,766,528
Due from other banks	6	**413,528**	365,076
Loans and advances	7	**13,128,347**	13,345,562
Investments	8	**3,413,436**	3,313,753
Property, equipment and capital work-in-progress	9	**589,960**	584,325
Other assets	10	**1,176,801**	876,300
Total assets		**20,738,700**	21,251,544
Liabilities and shareholders' equity			
Liabilities			
Due to banks	11	**1,543,890**	1,095,482
Customers' deposits	12	**15,049,917**	15,538,015
Medium term borrowings	13	**844,629**	1,524,005
Other liabilities	14	**1,135,634**	1,007,325
Total liabilities		**18,574,070**	19,164,827
SHAREHOLDERS' EQUITY			
Share capital	15	**1,375,033**	1,375,033
Special reserve	15	**414,393**	412,659
Statutory reserve	15	**496,948**	495,214
General reserve	15	**9,311**	9,311
Revaluation reserve	15	**632**	673
Retained earnings		**(153,940)**	(167,856)
Cumulative changes in fair values	15	**22,253**	(38,317)
Net shareholders' equity		**2,164,630**	2,086,717
Total liabilities and shareholders' equity		**20,738,700**	21,251,544

The financial statements were approved by the Board of Directors on 19th February 2018 and signed on its behalf by:

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
Chairman

Samer Tamimi
Acting Chief Executive Officer

The attached notes 1 to 31 form part of these consolidated financial statements.

UNITED ARAB BANK P.J.S.C.
CONSOLIDATED STATEMENT OF INCOME- For the Year ended 31 December 2017

	Notes	2017 AED'000	2016 AED'000
Interest income	16	**842,652**	943,988
Interest expense	17	**(353,211)**	(310,378)
Net interest income		**489,441**	633,610
Net fees and commission income	18	**105,980**	83,870
Foreign exchange income	19	**39,593**	68,275
Other operating income	20	**42,074**	75,614
Operating income		**677,088**	861,369
Net impairment losses	7	**(289,277)**	(1,011,434)
Net operating income / (loss)		**387,811**	(150,065)
Employee benefit expenses		**(215,041)**	(225,404)
Depreciation		**(35,749)**	(34,350)
Other operating expenses	21	**(119,678)**	(112,872)
Total operating expenses		**(370,468)**	(372,626)
Net profit / (loss) for the year		**17,343**	(522,691)
Profit / (Loss) per share (basic and diluted in AED)	22	**0.01**	(0.38)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Year ended 31 December 2017

	2017 AED'000	2016 AED'000
Net profit / (loss) for the year	**17,343**	(522,691)
Other comprehensive income		
Items that are or may be reclassified subsequently to the consolidated statement of income		
Net changes in fair value of available-for-sale investments	**35,874**	7,423
Available-for-sale investments – reclassified to the consolidated statement of income	**24,696**	32,030
	60,570	39,453
Total comprehensive profit / (loss) for the year	**77,913**	(483,238)

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS - For the Year ended 31 December 2017

	Notes	2017 AED'000	2016 AED'000
Operating activities			
Net profit / (loss) for the year		**17,343**	(522,691)
Adjustments for:			
Depreciation	9	**35,749**	34,350
Loss on write off of property and equipment	9	**5,000**	11,578
Gain from insurance and sale of property and equipment		**(5,247)**	-
Net impairment losses	7	**289,277**	1,011,434
Amortisation of premium paid on investments		**38,575**	25,959
Net fair value loss / (gain) on disposal of investments		**8,396**	(39,929)
Unrealised gain on investments		**(1,466)**	-
Operating cash flows before working capital changes		**387,627**	523,701
Changes in operating assets and liabilities:			
Loans and advances		**(327,792)**	1,294,733
Balances with UAE Central Bank maturing after three months		**307,225**	(97,235)
Due from other banks maturing after three months		**125,000**	(33,193)
Cash margin held by counterparty banks against borrowings and derivative transactions	6	**2,842**	40,842
Other assets	10	**(44,771)**	(29,212)
Due to banks maturing after three months		**119,379**	(23,413)
Customers' deposits	12	**(488,098)**	(1,237,028)
Other liabilities	14	**150,685**	16,196
Net cash generated from operating activities		**232,097**	455,391
Investing activities			
Purchase of property, equipment and capital work-in-progress	9	**(47,462)**	(42,535)
Proceeds on sale of property and equipment		**1,325**	-
Proceeds from insurance claims		**5,000**	-
Purchase of investments		**(2,168,334)**	(5,169,198)
Proceeds from redemption of investments		**2,061,340**	4,492,217
Proceeds from sale of investment properties		**-**	75,000
Net cash used in investing activities		**(148,131)**	(644,516)
Financing activities			
Net repayment of medium term borrowings	13	**(679,376)**	(789,544)
Net change in cash and cash equivalents		**(595,410)**	(978,669)
Cash and cash equivalents at 1 January		**1,631,477**	2,610,146
Cash and cash equivalents at 31 December		**1,036,067**	1,631,477

Cash and cash equivalents comprise the following statement of financial position amounts with original maturities of three months or less:

	2017	2016
Cash and balances with the UAE Central Bank	**1,205,286**	1,647,961
Due from other banks	**392,302**	216,008
Due to other banks	**(561,521)**	(232,492)
	1,036,067	1,631,477

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - For the Year ended 31 December 2017

	Share capital AED'000	Special reserve AED'000	Statutory reserve AED'000	General reserve AED'000	General reserve AED'000	Retained earnings AED'000	Cumulative changes in fair value AED'000	Total AED'000
At 1 January 2016	**1,375,033**	**412,659**	**495,214**	**9,311**	**714**	**354,794**	**(77,770)**	**2,569,955**
Loss for the year	-	-	-	-	-	(522,691)	-	(522,691)
Other comprehensive income for the year	-	-	-	-	-	-	39,453	39,453
Total comprehensive loss for the year	-	-	-	-	-	(522,691)	39,453	(483,238)
Depreciation transfer for land and buildings	-	-	-	-	(41)	41	-	-
At 31 December 2016	**1,375,033**	**412,659**	**495,214**	**9,311**	**673**	**(167,856)**	**(38,317)**	**2,086,717**
Profit for the year	-	-	-	-	-	17,343	-	17,343
Other comprehensive income for the year	-	-	-	-	-	-	60,570	60,570
Total comprehensive profit for the year	**-**	**-**	**-**	**-**	**-**	**17,343**	**60,570**	**77,913**
Depreciation transfer for land and buildings	-	-	-	-	(41)	41	-	-
Transfer to special reserve	-	1,734	-	-	-	(1,734)	-	-
Transfer to statutory reserve	-	-	1,734	-	-	(1,734)	-	-
At 31 December 2017	**1,375,033**	**414,393**	**496,948**	**9,311**	**632**	**(153,940)**	**22,253**	**2,164,630**

The attached notes 1 to 31 form part of these consolidated financial statements.

1. INCORPORATION AND ACTIVITIES

United Arab Bank P.J.S.C. (the "Bank") was incorporated in 1975 as a Private Joint Stock Company in the Emirate of Sharjah. The legal form of the Bank was converted to a public company with limited liability in 1982 by a decree of His Highness The Ruler of Sharjah and has been registered as a public joint stock company under the UAE Commercial Companies Law No. (8) of 1984 (as amended). The Bank's registered office is located in the Emirate of Sharjah, United Arab Emirates. The address of the registered office is PO Box 25022, Sharjah, United Arab Emirates.

The Bank carries out the business of commercial banking through its offices and branches in the United Arab Emirates. The Bank also carries out Islamic banking operations through Islamic banking windows at selected branches.

Investment in subsidiary

On 28 November 2011, Al Sadarah Investment Company was formed as an investment company by the Bank. Al Sadarah Investment Company ("the subsidiary") started its operations on 3 May 2012 when the share capital was introduced into the subsidiary. The company is incorporated as a fully owned subsidiary of the Bank and the financial results of the subsidiary are fully consolidated in the Bank's consolidated financial statements for the year ended 31 December 2017. The Bank and its subsidiary are together referred to as the "Group".

The issued and fully paid up capital of the Al Sadarah Investment Company is 100 shares of AED 3,000 each, totalling AED 300,000 (2016: AED 300,000). The principal activities of the subsidiary are to make financial investments on its own, invest in commercial projects and provide investment advisory services.

Following a recent management review, decision was made to wind up this subsidiary as the entity was not considered core to the Group's transformation strategy.

2. BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates laws. UAE Federal Law No. 2 of 2015 ("Companies Law") which is applicable to the Group has come into effect on 1 July 2015. The Group has assessed and evaluated the provisions of the Companies Law and has ensured its compliance.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

3.1.1 Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 1 January 2017

A number of new standards and amendments became effective for the year ended 31 December 2017. These are listed out below.

New standards and significant amendments to standards applicable to the Group	Effective for annual periods beginning on or after:
Amendments to IAS 7, Statement of cash flows on disclosure initiative These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities including those from cash flows and other non-cash changes. The new requirement typically entails a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.	1 January 2017

There is no material impact of the above amendment on the consolidated financial statements of the Group.

There are no other IFRSs or IFRIC interpretations that were effective for the first time for the Group's financial year beginning on 1 January 2017 that have had a material impact on the Group's consolidated financial statements.

3.1.2 Standards, amendments and interpretations issued but not yet effective for the Group's accounting period beginning on 1 January 2017 and not early adopted

New standards and significant amendments to standards issued and not yet effective and not early adopted	Effective for annual periods beginning on or after:
IFRS 9, 'Financial instruments' IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018: The majority of the Group's debt instruments that are currently classified as available-for-sale (AFS) will satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets. Equity instruments currently classified as AFS for which a FVOCI election is available will be classified as FVOCI; and debt instruments currently classified as held-to-maturity and measured at amortised cost which meet the conditions for classification at amortised cost under IFRS 9.	1 January 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

3.1.2 Standards, amendments and interpretations issued but not yet effective for the Group's accounting period beginning on 1 January 2017 and not early adopted (continued)

New standards and significant amendments to standards issued and not yet effective and not early adopted	Effective for annual periods beginning on or after:
Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of equity instruments classified as FVOCI, will no longer be transferred to profit or loss on sale, but instead reclassified in equity from the FVOCI reserve to retained earnings. During the 2017 financial year, there were no such gains which were recognised in profit or loss in relation to the disposal of available-for-sale equity instruments. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The de-recognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The Group has elected to continue to apply hedge accounting requirements under IAS 39, as permitted by IFRS 9. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, loan commitments and certain financial guarantee contracts.	

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
3.1 NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)
3.1.2 Standards, amendments and interpretations issued but not yet effective for the Group's accounting period beginning on 1 January 2017 and not early adopted (continued)

New standards and significant amendments to standards issued and not yet effective and not early adopted	Effective for annual periods beginning on or after:
The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. In line with the IFRS 9 transition provisions, the Group has elected to record an adjustment by reducing its opening retained earnings on 1 January 2018 to reflect the application of the new impairment requirements. This adjustment will, therefore, reduce shareholders' equity at 1 January 2018 by 8% to 10%. Comparatives for 2017 will not be restated.	
IFRS 15, 'Revenue from contracts with customers' This standard replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. **Amendment to IFRS 15, 'Revenue from contracts with customers'** These amendments comprise clarifications on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard. IFRS 15 is not expected to have material impact on the consolidated financial statements.	1 January 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

3.1.2 Standards, amendments and interpretations issued but not yet effective for the Group's accounting period beginning on 1 January 2017 and not early adopted (continued)

New standards and significant amendments to standards issued and not yet effective and not early adopted	Effective for annual periods beginning on or after:
IFRS 16 'Leases' This standard replaces the current guidance in IAS 17. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 is not expected to have material impact on the consolidated financial statements.	1 January 2019
Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' regarding the sale or contribution of assets between an investor and its associate or joint venture These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. These amendments are not expected to have material impact on the consolidated financial statements.	Date to be determined

The Group has plans in place for adhering to the above new standards and amendments to published standards or IFRIC interpretations issued but not yet effective for the Group's financial year beginning on 1 January 2017. The Group is currently assessing the impact of these standards and interpretations on the consolidated financial statements, other than the impact of IFRS 9 which has been assessed and disclosed in this note.

There are no other applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2017 that would be expected to have a material impact on the consolidated interim financial information of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 BASIS OF MEASUREMENT

The consolidated financial statements are prepared under the historical cost convention except for the following financial assets and liabilities that are measured at fair value:

- derivative financial instruments;
- available-for-sale financial assets; and
- investments held for trading

3.3 FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements have been presented in UAE Dirhams which is the presentation currency of the Group and the functional currency of the Bank and its subsidiary and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

3.4 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December 2017 (collectively referred to as the "Group"). The following subsidiary has been consolidated within these consolidated financial statements:

Name	Legal Status	Beneficial ownership	Country of incorporation	Principal activities
Al Sadarah Investment company	Limited Liability company	100%	Sharjah, UAE	Investments and investment advisory services

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee.

Subsidiaries are fully consolidated from the date of acquisition or establishment, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Where necessary, the accounting policies of subsidiaries are aligned to ensure consistency with the policies adopted by the Group. All intra-group balances, transactions, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument for another entity. All assets and liabilities in the consolidated statement of financial position are financial instruments except property and equipment, capital work-in-progress, prepayments, provision for employee service benefits and shareholders' equity.

3.5.1 Classification

The Group classified its financial assets at initial recognition in the following categories:

- Financial assets at fair value through profit or loss: A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they were designated as hedges.
- Loans and advances: This category comprised of non-derivative financial assets with fixed and determinable payments that were not quoted in an active market. Loans and advances arise when the Group provides money directly to the borrower with no intention of trading the receivable.
- Held-to-maturity: Investments classified as held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention of, and the ability to, hold till maturity.
- Available-for-sale: Investments classified as Available-for-sale are those non-derivative financial assets that are designated as available-for-sale or not classified as (a) loans and advances; (b) held-to-maturity investments; or (c) financial assets at fair value through profit or loss.

3.5.2 Recognition and initial measurement

The Group initially recognises loans and advances and deposits on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.5.3 Amortised cost measurement principles

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal re-payments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts including initial transaction costs are included in the carrying amount of the related instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 FINANCIAL INSTRUMENTS (CONTINUED)

3.5.4 Subsequent measurement

Subsequent to initial recognition, all financial instruments to be fair valued are measured at fair value using the fair value measurement principles below.

All other assets are measured at amortised cost using the effective interest method less impairment losses, if any.

3.5.5 Gains and losses on subsequent measurement

(a) Debt Investments
Gains and losses arising from changes in the fair value of available-for-sale investments are recognised directly in equity through other comprehensive income, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of income. Gains and losses from changes in the fair value of held-for-trading investments are recognised in the consolidated statement of income.

(b) Equity Investments
Gains and losses arising from changes in the fair value on available-for-sale equity investments are recognized in other comprehensive income, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of income. Dividends from such investments continue to be recognised in profit or loss as other income when the right to receive payments is established.

3.5.6 De-recognition

Financial assets are derecognised when the contractual rights to receive cash flows from the asset expire or where the Group has transferred substantially all the risks and rewards of ownership. A financial liability is derecognised when its contractual obligations are discharged, cancelled or expire.

3.5.7 Fair value measurement

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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 FINANCIAL INSTRUMENTS (CONTINUED)

3.5.7 Fair value measurement (continued)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability, nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.5.8 Due from banks

Due from banks and financial institutions are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate less allowance for impairment, if any.

3.5.9 Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted current accounts with the Central Bank, deposits with the Central Bank with an original maturity of three months or less, and amounts due from (to) banks on demand or with an original maturity of three months or less.

3.5.10 Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, with premium received included in 'Other liabilities'. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income in 'Provision for credit losses'. The premium received is recognised in the consolidated statement of income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 FINANCIAL INSTRUMENTS (CONTINUED)

3.5.11 Derivatives

The Group enters into derivative instruments including forwards, futures, forward rate agreements, swaps and options in foreign exchange, interest rate and capital markets. In the normal course of business, the fair value of a derivative on initial recognition is the transaction price. Subsequent to their initial recognition, derivative financial instruments are stated at fair values. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the statement of financial position. Changes in the fair values of derivatives held for trading or to offset other trading positions are included in other operating income (expenses) in the consolidated statement of income.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument(s) is / are expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

Changes in the fair value of derivatives that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk are included in other operating income / (expenses) along with the corresponding changes in the fair value of the hedged assets or liabilities which are attributable to the risk being hedged.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Upon such discontinuance, in the case of fair value hedges of interest-bearing financial instruments any adjustment to the carrying amount relating to the hedged risk is amortised in the consolidated statement of income over the remaining term to maturity.

Certain derivative transactions, while providing effective economic hedges under the Group's asset and liability management and risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore accounted for as derivatives held for trading and the related fair value gains and losses reported in other operating income (expenses).

Derivatives may be embedded in another contractual agreement (host contract). Derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated statement of income. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 FINANCIAL INSTRUMENTS (CONTINUED)

3.5.12 Impairment of financial assets

The Group assesses at each statement of financial position date whether there was any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- Downgrading below investment grade level; and
- Skipping / non-existence of borrowers

(i) Financial assets carried at amortised cost
For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the revised / renegotiated rate of interest. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to 'Provision for credit losses'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate ("EIR"). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 FINANCIAL INSTRUMENTS (CONTINUED)

3.5.12 Impairment of financial assets (continued)
(i) Financial assets carried at amortised cost (continued)

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available-for-sale financial investments
For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, applying the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 RENEGOTIATED LOANS

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

3.7 WRITE-OFF

The Group writes off a loan or other financial asset (and any other related allowances for impairment losses) when the Group Credit determines that the loans or other financial assets are uncollectible in whole or in part. This is determined after considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that the borrower or issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Assets are written-off against provisions up to the extent of amount considered un-collectible.

However the Group retains its full legal claim on, and may continue with its recovery effort including litigation, on written-off accounts.

3.8 ASSETS ACQUIRED IN SETTLEMENT OF DEBTS

In certain cases, the Group may close out transactions by acquiring assets in settlement of debts. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment losses) at the date of exchange. These assets are recorded in "Other assets". It is the Group's policy to dispose of such repossessed properties in an orderly manner. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

3.9 REVENUE RECOGNITION

For all financial instruments measured at amortised cost and debt financial instruments classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 REVENUE RECOGNITION (CONTINUED)

Fees earned for provision of services over a period of time are accrued over that period. These fees include commission income, custody and other management advisory fees.

Other fee income and expense are recognised when earned or incurred. Dividend income is recognised when the right to receive payment is established.

3.10 PROPERTY AND EQUIPMENT

Property and equipment are stated at cost excluding the costs of day to day servicing, less accumulated depreciation and any impairment in value. Freehold land is not depreciated as it is deemed to have an indefinite life.

Depreciation is calculated on a straight line basis over the estimated useful lives of property and equipment as follows:

Buildings	Over 25 years
Motor vehicles	Over 5 years
Furniture, fixtures and equipment	Over 3 to 8 years
Leasehold improvements	Over 12 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the consolidated statement of income in the year the asset is derecognised.

3.11 PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and can be reliably measured. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 EMPLOYEES' END OF SERVICE BENEFITS

Provision is made, in accordance with the provisions of IAS 19, for the end of service benefits due to employees in accordance with the UAE labour law for their period of service up to the financial position date and the provision arising is disclosed as 'provision for employees' end of service benefits' in the statement of financial position. The Group pays its contributions in respect of UAE citizens under the UAE pension and social security law and no further liability exists.

3.13 FOREIGN CURRENCIES

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at mid-market rates of exchange ruling at the balance sheet date. Any resultant gains and losses are taken to the consolidated statement of income.

3.14 SEGMENT REPORTING

The Group's segmental reporting is based on the following operating segments: retail banking, corporate banking and others.

3.15 IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 TRADE AND SETTLEMENT DATE ACCOUNTING

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the asset is delivered to the counter party. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

3.17 FIDUCIARY ASSETS

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

3.18 OFFSETTING

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

3.19 DIVIDENDS ON ORDINARY SHARES

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

3.20 ACCEPTANCES

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. After acceptance, the instrument becomes an unconditional liability of the bank and is therefore recognized as a financial liability in the consolidated statement of financial position. However every acceptance has a corresponding contractual right of reimbursement from the customer which is recognised as a financial asset.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 ISLAMIC FINANCING AND INVESTMENT PRODUCTS

In addition to conventional banking products, the Group offers its customers certain non-interest based banking products, which are approved by its Sharia'a Supervisory Board.

The various Islamic instruments described below are accounted for, disclosed and presented in accordance with the requirements of the underlying substance of the instruments and IFRS / IAS / IFRIC.

Murabaha:
Murabaha receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. Murabaha is a sale transaction in which the seller (Group) expressly mentions the actual cost of the asset to be sold to the customer, and sells it to the customer on a cost plus mark-up (profit) basis. It is in fact the sale of an asset for a profit, usually on deferred payment basis.

Income on Murabaha financing is recognised on a time apportioned basis over the period of the Murabaha contract, using the effective profit rate method.

Ijara:
Ijara involves a contract where the Group buys and then leases an item to a customer for a specified rental over a specific period. The duration of lease, as well as the basis for rental, are set and agreed in advance. The Group acquires the beneficial ownership of the property to lease the usufruct to the customer.

Income on Ijara financing is recognised on a time apportioned basis over the lease term, using the effective profit rate method.

Qard:
A Qard is the transfer of ownership in tangible wealth (money), from the customer to the Group, and it is binding on the Group to return equal wealth (money) to the customer on demand or as per the agreed terms, which means that the principal is to be repaid on demand. The Islamic current account offered to customers is based on the concept of Qard, a profit free amount received from the customer to the Group, on which no profit or other form of return is payable.

Wakala:
Wakala involves an agreement, based on the concept of Wakala Bil Istithmar, where the Group becomes the investment agent (Wakil) for its customers (Muwakkil) for deposit of their funds in the Wakala investment account to be invested in Shariah-compliant investment instruments. The funds are used to generate profit for the customer by investing in Islamic financing facilities to the Group's other customers or investing in other Shariah-compliant investment instruments.

Income generated from the Wakala deposits are paid to the customers and the Group recognizes a corresponding expense in the statement of income. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the agent; otherwise, they are borne by the principal.

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4. SIGNIFICANT MANAGEMENT JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation and uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described below:

4.1 IMPAIRMENT LOSSES ON FINANCIAL ASSETS

The Group reviewed its individually significant loans and advances at each statement of financial position date to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security and realisation costs. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

Loans and advances that were assessed individually and found not to be impaired and all individually insignificant loans and advances were then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provisions should be made due to incurred loss events for which there is objective evidence but whose effects were not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratio etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

4.2 IMPAIRMENT OF INVESTMENTS

The Group treats its equity and debt investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that the loss event (or events) has an impact on the estimated future cash flows that can be reliably estimated. The determination of what is "significant" or "prolonged" requires considerable judgment. The Group evaluates a number of factors, including the amount of decline and the length of period of the decline, the normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities and debt securities. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

4. SIGNIFICANT MANAGEMENT JUDGEMENTS AND ESTIMATES (CONTINUED)

4.3 GOING CONCERN

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future, at least beyond 12 months from the balance sheet date. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

5. CASH AND BALANCES WITH UAE CENTRAL BANK

	2017 AED'000	2016 AED'000
Cash on hand	**83,551**	107,616
Balances with the UAE Central Bank:		
Clearing accounts	**271,735**	690,345
Certificate of deposits	**1,000,000**	1,200,000
Reserve requirements	**661,342**	768,567
	2,016,628	2,766,528

The reserve requirements, kept with the UAE Central Bank in AED and USD, are not available for use in the Group's day to day operations and cannot be withdrawn without its approval. However, the Central Bank in its Circular 4310/2008 dated 24 September 2008, has temporarily permitted banks to overdraw their current accounts (a) up to the amount of reserves at interest of 3% above the prevailing Central Bank Repo rate; and (b) in excess of reserves at interest of 5% above the prevailing Central Bank Repo rate. The level of reserve required changes every month in accordance with the UAE Central Bank directives.

6. DUE FROM OTHER BANKS

	2017 AED'000	2016 xAED'000
Demand deposits	**203,355**	174,422
Term deposits	**210,173**	190,654
	413,528	365,076

Due from other banks includes AED 170,937,000 (2016: AED 208,279,000) placed with foreign banks outside the UAE. AED 21,226,000 (2016: AED 24,068,000) is held by other banks as margin for derivative transactions.

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7. LOANS AND ADVANCES

The composition of the loans and advances portfolio is as follows:

	2017 AED'000	2016 AED'000
(a) By type:		
Overdrafts	**1,634,888**	1,369,166
Loans (medium and short term)*	**10,802,585**	11,155,680
Loans against trust receipts	**1,281,644**	1,340,716
Bills discounted	**233,693**	304,153
Other cash advances	**70,006**	78,707
Bills drawn under letters of credit	**135,690**	86,132
Gross amount of loans and advances	**14,158,506**	14,334,554
Less: Provision for impairment on loans and advances	**(1,030,159)**	(988,992)
Net loans and advances	**13,128,347**	13,345,562

* Includes retail loans of AED 3,322,112,000 (2016: AED 3,658,144,000)

	2017 AED'000	2016 AED'000
(b) By economic sector:		
Government and public sector	**479,360**	600,868
Trade	**2,088,028**	2,402,202
Personal loans (retail and business)	**5,846,945**	5,646,201
Manufacturing	**1,633,157**	1,822,292
Construction	**798,066**	771,602
Services	**1,480,110**	1,451,163
Financial institutions	**1,220,212**	1,224,798
Transport and communication	**589,825**	396,103
Others	**22,803**	19,325
Gross amount of loans and advances	**14,158,506**	14,334,554

7. LOANS AND ADVANCES (CONTINUED)

Loans and advances are stated net of provision for impairment of loans and advances. The movement in provision is as follows:

	2017 AED'000	2016 AED'000
Balance at 1 January	**988,992**	819,025
Provided during the year	**548,649**	1,205,295
Released during the year	**(234,457)**	(175,734)
	314,192	1,029,561
Amounts written off (net) during the year	**(273,025)**	(859,594)
Balance at 31 December	**1,030,159**	988,992

At 31 December 2017, the gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance amounted to AED 1,206,434,000 (2016: AED 825,302,000).

Provision for credit losses recognised in the consolidated statement of income is as follows:

	2017 AED'000	2016 AED'000
Net impairment of loans and advances	**314,192**	1,029,561
Recovery of bad debt written off	**(24,915)**	(18,127)
Provision for credit losses	**289,277**	1,011,434

Sector wise analysis of impaired loans and advances and related provisions is as follows:

	2017		2016	
	Gross exposure AED'000	Specific provision AED'000	Gross exposure AED'000	Specific provision AED'000
By economic sector				
Trade	**287,061**	**211,436**	256,572	186,635
Personal loans (retail and business)	**220,147**	**147,187**	117,860	55,524
Manufacturing	**288,883**	**100,376**	66,499	42,230
Construction	**778**	**343**	23,613	23,165
Services	**408,168**	**315,796**	343,850	264,529
Transport and communication	**1,397**	**429**	1,983	1,880
Others	**-**	**-**	14,925	3,627
Total	**1,206,434**	**775,567**	825,302	577,590

7. LOANS AND ADVANCES (CONTINUED)

The fair value of collateral that the Group holds relating to loans to corporate and retail customers individually determined to be impaired at 31 December 2017 amounts to AED 511,025,000 (2016: AED 255,353,000). The collateral consists of cash, securities, charges over real estate properties, vehicles, plant and machinery, inventory, trade receivables and guarantees from parent companies for loans to their subsidiaries or other group companies. During the year, the Group repossessed collaterals amounting to AED 275,632,000 (2016: AED 20,000,000).

8. INVESTMENTS

	2017			2016		
	Quoted AED'000	Unquoted AED'000	Total AED'000	Quoted AED'000	Unquoted AED'000	Total AED'000
Debt:						
Held for trading						
Local	**-**	**-**	**-**	18,572	-	18,572
Overseas	**196,497**	**-**	**196,497**	201,095	-	201,095
Available-for-sale						
Local	**2,714,638**	**-**	**2,714,638**	2,553,409	-	2,553,409
Overseas	**474,611**	**-**	**474,611**	531,520	-	531,520
Held to maturity						
Local	**18,489**	**-**	**18,489**	-	-	-
Total debt securities	**3,404,235**	**-**	**3,404,235**	3,304,596	-	3,304,596
Equity:						
Available-for-sale						
Local	**-**	**-**	**-**	-	-	-
Overseas	**8,824**	**76**	**8,900**	9,081	76	9,157
Total equities	**8,824**	**377**	**9,201**	9,081	76	9,157
Total investments	**3,413,059**	**377**	**3,413,436**	3,313,677	76	3,313,753

Included in the above are investment securities amounting to AED 784,565,000 (2016: AED 554,968,000) held under repurchase agreement with the lenders.

During the year Group has invested in unquoted shares of a company amounting to AED 301,000 which have been categorised as level 3 (2016: Nil).

9. PROPERTY, EQUIPMENT AND CAPITAL WORK-IN-PROGRESS (CONTINUED)

	Freehold land and buildings AED'000	Motor vehicles, leasehold improvements, furniture, fixtures and equipment AED'000	Capital work-in progress AED'000	Total AED'000
Cost:				
At 1 January 2017	**436,030**	**264,241**	**47,311**	**747,582**
Additions	**103**	**10,180**	**37,179**	**47,462**
Transfers	**-**	**1,210**	**(1,210)**	**-**
Write-offs	**(3,876)**	**(4,883)**	**-**	**(8,759)**
Disposals	**-**	**(3,586)**	**-**	**(3,586)**
At 31 December 2017	**432,257**	**267,162**	**83,280**	**782,699**
Accumulated depreciation:				
At 1 January 2017	**13,010**	**150,247**	**-**	**163,257**
Charge for the year	**3,753**	**31,989**	**-**	**35,742**
Transfer	**-**	**-**	**-**	**-**
Write-offs	**(869)**	**(2,890)**	**-**	**(3,759)**
Disposals	**-**	**(2,501)**	**-**	**(2,501)**
At 31 December 2017	**15,894**	**176,845**	**-**	**192,739**
Net Carrying Value:				
At 31 December 2017	**416,363**	**90,317**	**83,280**	**589,960**
Cost:				
At 1 January 2016	436,030	241,588	44,594	722,212
Additions	-	7,936	34,599	42,535
Transfers	-	31,882	(31,882)	-
Write-offs	-	(16,300)	-	(16,300)
Disposals	-	(865)	-	(865)
At 31 December 2016	436,030	264,241	47,311	747,582
Accumulated depreciation:				
At 1 January 2016	9,119	125,375	-	134,494
Charge for the year	3,891	30,459	-	34,350
Transfer	-	-	-	-
Write-offs	-	(4,722)	-	(4,722)
Disposals	-	(865)	-	(865)
At 31 December 2016	13,010	150,247	-	163,257
Net Carrying Value:				
At 31 December 2016	423,020	113,994	47,311	584,325

9. PROPERTY, EQUIPMENT AND CAPITAL WORK-IN-PROGRESS (CONTINUED)

The cost of freehold land included above is AED 338,368,000 (2016: AED 338,368,000).

During 2017, additions to capital work-in-progress relate to expenditure incurred in connection with the purchase of leasehold improvements, furniture, fixtures and equipment amounting to AED 37,179,000 (2016: AED 34,599,000). Upon completion of associated projects, AED 1,210,000 (2016: AED 31,882,000) was transferred to 'motor vehicles, leasehold improvements, furniture, fixtures and equipment'.

During 2017, the Group undertook a review of its branch network and wrote off building and furniture and equipment with a net carrying value of AED 5,000,000 (2016: AED 11,578,000).

Intangible assets relating to computer software are included within equipment and capital work-in-progress with a net carrying value of AED 26,814,000 (2016: AED 32,029,000).

10. OTHER ASSETS

	2017 **AED'000**	2016 AED'000
Interest receivable	**71,168**	79,597
Positive fair value of derivatives (Note 24)	**110,761**	109,963
Acceptances	**671,166**	616,410
Assets repossessed in settlement of debts	**275,632**	19,902
Prepayments and other assets	**48,074**	50,428
	1,176,801	876,300

11. DUE TO BANKS

	2017 **AED'000**	2016 AED'000
Demand deposits	**41,942**	12,491
Term deposits	**1,501,948**	1,082,991
	1,543,890	1,095,482

Term deposits include borrowings through repurchase agreements of AED 642,653,000 (2016: AED 440,676,000). Demand deposits include AED 28,079,000 (2016: AED 24,068,000) held as margin for derivative transactions.

12. CUSTOMERS' DEPOSITS

	2017 AED'000	2016 AED'000
Term and call deposits	**11,094,811**	11,054,363
Current accounts	**3,645,735**	4,108,846
Saving accounts	**309,371**	374,806
	15,049,917	15,538,015

13. MEDIUM TERM BORROWINGS

Movement in medium term borrowings during the year is as follows:

	2017 AED'000	2016 AED'000
Balance as at 1 January	**1,524,005**	2,313,549
New borrowings	**-**	550,845
Repayments	**(679,376)**	(1,340,389)
Balance as at 31 December	**844,629**	1,524,005

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

Maturity	Currency	Fixed / Floating	Interest Rate	2017 AED'000	2016 AED '000
2017	USD	Floating	LIBOR + Margin	**-**	91,808
2018	USD	Floating	LIBOR + Margin	**844,629**	1,432,197
				844,629	1,524,005

14. OTHER LIABILITIES

	2017 AED'000	2016 AED'000
Interest payable	**134,365**	101,862
Staff related provisions	**30,099**	34,662
Negative fair value of derivatives (Note 24)	**88,948**	82,807
Acceptances	**671,166**	616,410
Un-presented cheques	**51,933**	76,926
Others	**159,123**	94,658
	1,135,634	1,007,325

	2017 AED'000	2016 AED'000
Staff related provisions		
The aggregate employee entitlement liability comprises:		
Employees' end of service benefits	**28,116**	30,115
Other liabilities	**1,983**	4,547
	30,099	34,662

In accordance with UAE labour law, the Group provides for end of service benefit for its expatriate employees. Movements in the liability recognised in the consolidated statement of financial position in respect of end of service benefits are as follows:

	2017 AED'000	2016 AED'000
Liability as at 1 January	**30,115**	29,115
Expense recognised in the consolidated statement of income	**4,233**	6,970
End of service benefits paid	**(6,232)**	(5,970)
Liability as at 31 December	**28,116**	30,115

15. SHARE CAPITAL AND RESERVES

(a) Share capital
The authorised, issued and fully paid up share capital of the Bank comprises 1,375,033,766 (2016: 1,375,033,766) shares of AED 1 each.

(b) Special reserve
Article 82 of Federal Law No. 10 of 1980 concerning the Central Bank, the Monetary System and Organisation of Banking requires that 10% of the net profit is transferred to a non-distributable special reserve until this reserve equals 50% of the paid up share capital.

(c) Statutory reserve
Article 192 of the UAE Commercial Companies Law No.(8) of 1984 (as amended) and the Articles of Association of the Bank, require that 10% of the net profit is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital.

(d) General reserve
The general reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the bank at an ordinary general meeting, on the recommendation of the Board of Directors.

(e) Revaluation reserve
The revaluation reserve was used to record increases in the fair value of freehold land and buildings and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in other comprehensive income. In 2008, the Bank changed its accounting policy to the cost basis of accounting for land and buildings.

(f) Dividends
The directors do not propose any cash dividend for the year ended 31 December 2017 (2016: Nil).

(g) Cumulative changes in fair value
Cumulative changes in fair value reserve includes the net change in fair value of available-for-sale financial assets and the net effective portion of changes in fair value of cash flow hedges (if any).

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16. INTEREST INCOME

	2017 AED'000	2016 AED'000
Interest on loans and advances to customers	**694,113**	827,848
Interest on money market and interbank transactions	**39,593**	15,738
Interest on debt investments securities	**108,946**	100,402
	842,652	943,988

17. INTEREST EXPENSE

	2017 AED'000	2016 AED'000
Interest on customer deposits	**255,548**	226,894
Interest on interbank transactions	**97,663**	83,484
	353,211	310,378

18. NET FEES AND COMMISSION INCOME

	2017 AED'000	2016 AED'000
Fees on letters of credit and acceptances	**21,504**	20,590
Fees on guarantees	**33,234**	25,172
Fees on loans and advances	**67,758**	58,140
Commission expense	**(16,516)**	(20,032)
	105,980	83,870

19. FOREIGN EXCHANGE INCOME

Foreign exchange income comprises mainly of net gains of AED 31,464,000 (2016: AED 57,493,000) arising from trading in foreign currencies.

20. OTHER OPERATING INCOME

	2017 AED'000	2016 AED'000
Charges recovered from customers	**33,899**	37,037
Income from collections	**5,055**	5,419
Others	**3,120**	33,158
	42,074	75,614

Other income primarily includes realized gains of AED 3,453,000 (2016: AED 38,487,000) on sale of available-for-sale investments.

21. OTHER OPERATING EXPENSES

	2017 AED'000	2016 AED'000
Occupancy and maintenance costs	**49,406**	54,347
Legal and professional fees	**21,845**	27,891
Other administrative expenses	**43,427**	19,056
Write-off of property and equipment	**5,000**	11,578
	119,678	112,872

22. EARNINGS PER SHARE

Basic earnings per share is based on the profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding calculated as follows:

	2017 AED'000	2016 AED'000
Net profit / (loss) for the year	**17,343,000**	(522,691,000)
Weighted average number of ordinary shares:		
Weighted average number of shares of AED 1 each outstanding for the year	**1,375,033,766**	1,375,033,766
Basic earnings per share	**0.01**	(0.38)

The figures for diluted earnings per share are the same as basic earnings per share as the Bank has not issued any instruments which would have an impact on earnings per share if or when exercised.

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23. RELATED PARTY TRANSACTIONS

The Group carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant influence on the Group, directors of the Group, key management personnel of the Group and companies over which such shareholders and directors exercise control or significant influence either directly or indirectly.

The significant balances outstanding at 31 December are as follows:

	2017 AED'000	2016 AED'000
Shareholders:		
Due from banks	**1,413**	2,022
Due to banks	**5,180**	1,752
Medium term borrowings	**91,808**	165,254
Commitments and contingencies	**12,491**	11,466
Directors:		
Loans and advances	**250**	501
Customers' deposits	**8,545**	36,033
Commitments and contingencies	**45**	45
Other related entities of shareholders and directors:		
Loans and advances	**293,499**	299,677
Investments	**85,850**	85,560
Due from banks	**101**	72
Due to banks	**68**	50
Customers' deposits	**179,566**	256,711
Commitments and contingencies	**245,614**	275,739
Key management personnel of the Group:		
Loans and advances	**5,699**	6,234
Customers' deposits	**4,696**	5,794
Shareholders, directors, their related entities and key management personnel		
Accrued interest income	**4,779**	5,695
Accrued interest expense	**3,011**	2,646

23. RELATED PARTY TRANSACTIONS (CONTINUED)

The income and expenses and purchase and sale of investments in respect of related parties during the year included in the consolidated statement of income are as follows:

	2017 AED'000	2016 AED'000
Shareholders, directors and their related entities		
Interest income	**21,524**	22,465
Interest expense	**6,297**	9,330
Gain / (loss) from sale of investments	**146**	(104)
Purchase of investments	**20,434**	5,586
Sale of investments	**20,398**	39,236
Key management personnel		
Salaries and other short term benefits	**16,800**	17,982
Employees' end of service benefits	**2,328**	4,011
Total compensation to key management personnel as at 31 December	**19,128**	21,993
Interest income	**143**	88
Interest expense	**22**	13

	2017 AED'000	2016 AED'000
Number of key management personnel	**10**	12

Terms and conditions of transactions with related parties

The above mentioned outstanding balances and transactions arose from the ordinary course of business and have been conducted on arm's length basis. The interest charged to and by, related parties is at normal commercial rates. Outstanding balances at year end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2017, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2016: Nil).
The Group has leased office space in various premises owned by a related party. The property rental and associated expenses for the year amounted to AED 2,396,000 (2016: AED 2,332,000). The property rentals are negotiated each year at market rates.

24. DERIVATIVES

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

24.1 DERIVATIVE PRODUCT TYPES

(a) Forward Contracts
Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. The Group has credit exposure to the counterparties of forward contracts.

(b) Options
Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

(c) Swaps
Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the Group either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

24.2 PURPOSE OF DERIVATIVES

The Group is a party to derivative instruments in the normal course of meeting the needs of the Group's customers. In addition, The Group also uses derivatives for trading purposes and, as part of its risk management activity, the Group uses derivative instruments for hedging purposes in order to reduce its own exposure to current and expected risks. This is achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures.

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

24. DERIVATIVES (CONTINUED)

Over-the-counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position.

The derivatives are recorded at fair value by using the published price quotations in an active market or counterparty prices or valuation techniques using a valuation model that has been tested against the prices of actual market transactions and the Group's best estimate of the most appropriate model inputs (Note 28).

The tables below show the fair values of derivative financial instruments for risk management and hedging purposes, recorded as assets and liabilities, together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor credit risk.

24.2.1 DERIVATIVES HELD FOR RISK MANAGEMENT

31 December 2017				**Notional amounts by term to maturity**			
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Forward contracts	**100,151**	**(74,168)**	**18,506,959**	**6,868,998**	**6,592,895**	**5,045,066**	**-**
Foreign currency options	**49**	**(15)**	**24,972**	**24,972**	**-**	**-**	**-**
Interest rate swaps	**1,379**	**(1,461)**	**455,928**	**-**	**-**	**150,849**	**305,079**
	101,579	**(75,644)**	**18,987,859**	**6,893,970**	**6,592,895**	**5,195,915**	**305,079**
31 December 2016							
Forward contracts	100,963	(52,820)	15,550,449	8,066,054	3,791,977	3,692,418	-
Foreign currency options	867	(867)	168,017	22,034	145,983	-	-
Interest rate swaps	3,314	(3,314)	411,815	-	-	192,636	219,179
	105,144	(57,001)	16,130,281	8,088,088	3,937,960	3,885,054	219,179

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24. DERIVATIVES (CONTINUED)

24.2 PURPOSE OF DERIVATIVES (CONTINUED)

24.2.1 Derivatives held for risk management (continued)

Fair value hedges of interest rate risk

The Group uses interest rate swaps to hedge its exposure to changes in fair values of fixed-rate investments in respect of a benchmark interest rate. Interest rate swaps are matched to specific purchases of investments.

The Group hedges interest rate risk only to the extent of benchmark interest rates. The benchmark rate is a component of interest rate risk that is observable in relevant environments. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

When fair value hedge accounting is applied by the Group, the Group assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in fair value of the hedged item using regression analysis. The assessment is based on an evaluation of the quantitative measures of the regression results.

The fair value of the swaps is disclosed in other assets (liabilities) and the carrying amount of the hedged items included in the line item 'Investments' in the consolidated statement of financial position. Fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in other operating income.

At 31 December 2017, the Group held the following interest rate swaps as hedging instruments in fair value hedges of interest risk, along with amounts relating to hedged items.

				Notional amounts by term to maturity			
	Positive fair value	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2017							
Hedge of investments	**9,182**	**(13,304)**	**1,539,817**	**-**	**-**	**304,801**	**1,235,016**
31 December 2016							
Hedge of investments	4,819	(25,806)	1,063,964	-	-	157,909	906,055

24. DERIVATIVES (CONTINUED)

24.2 PURPOSE OF DERIVATIVES (CONTINUED)

24.2.1 Derivatives held for risk management (continued)

Fair value hedges of interest rate risk

The carrying amount of the hedged items are included in the line item 'Investments' on the consolidated statement of financial position with the notional amount totalling to AED 1,592,899,000 (2016: AED 1,063,964,000). These hedged item comprises of debt instruments which are held as available-for-sale.

During 2017, the Group has recognised a loss of AED 4,987,000 (2016: AED 3,369,000) relating to hedge ineffectiveness calculated as follows:

	2017		2016	
	Change in value	Ineffectiveness recognised in profit and loss	Change in value	Ineffectiveness recognised in profit and loss
	AED'000	AED'000	AED'000	AED'000
On hedging instruments	**17,254**	**(4,987)**	20,723	(3,369)
On hedged items	**(22,241)**		(24,092)	

24.3 DERIVATIVE RELATED CREDIT RISK

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. Approximately 97% (2016: 95%) of the Group's derivative contracts are entered into with other financial institutions.

25. CONTINGENT LIABILITIES AND COMMITMENTS

Credit related commitments

The Group's contractual amounts in respect of letters of credit and guarantees commit the Group to make payments on behalf of customers contingent upon the customer satisfying the terms of the contract. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced, guarantees are called for full amount following performance failure, and that any collateral or other security is of no value. However, the total contractual amount of commitments does not necessarily represent future cash requirements since many of such commitments will expire or terminate without being funded.

The loan commitments represent the contractual commitments to make the loan. These commitments are revocable and generally have fixed expiry dates or other termination clauses. Since commitments are revocable, may expire without being drawn down and also the conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent future cash outflow requirement.

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25. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

The Group has the following credit related commitments:

	2017	2016
	AED'000	AED'000
Contingent liabilities		
Letters of credit	**448,907**	420,563
Guarantees	**3,593,558**	3,218,243
	4,042,465	3,638,806
Commitments		
Undrawn loan commitments	**2,496,648**	2,716,966

26. RISK MANAGEMENT

INTRODUCTION

Risk is inherent in all of the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to their responsibilities.

Risk Management covers all risks including credit, liquidity, market and operational risk, and processes from origination to approval and ongoing control, review, maintenance and reporting of exposures. It also covers the high level organisation, roles and responsibilities of Board and management level committees, and authorities and processes relating to risk management, internal controls, compliance and internal audit functions.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Group's strategic planning process.

Risk Management Structure

Board level committees

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate board sub-committees responsible for managing and monitoring risks.

(a) Board Credit Committee

The Board Credit Committee (BCC) has the responsibility to establish credit risk strategy and monitor the overall credit process within the Group for maintaining a diversified portfolio, avoiding undesired risk concentrations, improving the overall asset quality of the portfolio, and complying with Credit Policy and regulatory guidelines.

26. RISK MANAGEMENT (CONTINUED)

INTRODUCTION (CONTINUED)

(a) Board Credit Committee (continued)
The Board Audit Committee (BAC) is responsible for monitoring, reviewing and reporting to the Board on the formal arrangements relating to the financial and narrative reporting of the Group, internal controls, compliance and internal / external audit processes.

(b) Board Risk Committee
The Board Risk Committee (BRC) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies for enhancing the Group's risk management framework to best practices standards. This includes, but is not limited to, ensuring effective control structures and the monitoring of aggregate risk exposures (including but not limited to credit, market, liquidity, operational and legal).

(c) Group Remuneration Committee
The Group Remuneration Committee (GRC) acts on behalf of the Board on all matters related to governance, remuneration, nomination and strategic plans, except for those powers and actions that are restricted to the Board on the basis of legal provisions or the Articles. The GRC is responsible for supporting the Board in overseeing the remuneration scheme, in order to ensure that the subject remuneration is appropriate and consistent with the Bank's culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements.

Management groups
The Board level committees are further supplemented by the management groups / functions who are responsible for day to day monitoring of risks.

(a) Risk Management Group
The Risk Management Group is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It works closely with the commercial organisation to support their activities, while safe-guarding the risk profile of the Group. It institutes prudent risk monitoring and control mechanisms (processes and systems) to ensure compliance of individual risk assets and portfolios to agreed terms and policy parameters. It reviews and presents all credit submissions, risk policy and portfolio management reports to the BCC and BRC.

(b) Treasury
Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Group.

(c) Internal Audit
Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of, and the Group's compliance with, its procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

26. RISK MANAGEMENT (CONTINUED)

INTRODUCTION (CONTINUED)

Risk Measurement and Reporting Systems
Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect both the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to identify, analyse and control at an early stage. The Board receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit related risks of the Group. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assess the appropriateness of the allowance for credit losses on a quarterly basis.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure all business divisions have access to extensive, necessary and up-to-date information.

Regular briefings are given to the Chief Executive Officer, GMRC and all other relevant members of management on all aspects of risk taken by the Group including the utilisation of limits, proprietary investments and liquidity, plus any other risk developments.

Risk Mitigation
The Group actively uses collateral to reduce its credit risks.

Also, as part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

Risk concentration
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

26. RISK MANAGEMENT (CONTINUED)

Credit Risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment / contractual obligation, resulting in a financial loss to the Group. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Group. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, including contingent liabilities and commitments. The maximum exposure is shown, before the effect of mitigation through the use of credit enhancements, master netting and collateral agreements.

	Notes	2017 AED'000	2016 AED'000
Cash and balances with the UAE Central Bank (excluding cash on hand)	5	**1,933,077**	2,658,912
Due from other banks	6	**413,528**	365,076
Loans and advances (net of provisions)	7	**13,128,347**	13,345,562
Investments	8	**3,404,235**	3,304,596
Other assets* *excluding prepayments and assets acquired in settlement of debt	10	**877,583**	824,489
Total		**19,756,770**	20,498,635
Letters of credit	25	**448,907**	420,563
Guarantees	25	**3,593,558**	3,218,243
Undrawn loan commitments	25	**2,496,648**	2,716,966
Total		**6,539,113**	6,355,772
Total credit risk exposure		**26,295,883**	26,854,407

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

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client / counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2017 was AED 515,751,000 (2016: AED 600,868,000).

The Group's maximum exposure to credit risk, after provisions but before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

26. RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

	2017		2016	
	Assets AED'000	Contingent Liabilities and commitments AED'000	Assets AED'000	Contingent Liabilities and commitments AED'000
United Arab Emirates	**17,750,833**	**6,063,152**	18,668,773	5,928,546
Other Middle East countries	**1,297,741**	**208,454**	1,312,349	168,983
Europe	**114,942**	**74,900**	128,133	59,248
USA	**296,740**	**-**	262,302	-
Rest of World	**296,514**	**192,607**	127,078	198,995
Total	**19,756,770**	**6,539,113**	20,498,635	6,355,772

An industry sector analysis of the Group's maximum exposure to credit risk (excluding cash on hand) after provisions but before taking into account collateral held or other credit enhancements, is as follows:

	2017 AED'000	2016 AED'000
Financial Services	**4,107,554**	4,866,970
Trade	**2,494,456**	2,766,359
Manufacturing	**1,810,919**	1,992,628
Government and public sector	**3,526,102**	3,491,050
Construction	**863,695**	831,466
Services	**2,105,174**	1,872,852
Other	**5,879,029**	5,666,302
	20,786,929	21,487,627
Less: Provision for impairment on loans and advances	**(1,030,159)**	(988,992)
	19,756,770	20,498,635

26. RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial assets based on the Group's credit rating system.

31 December 2017	Neither past due nor impaired					
	High grade	Standard grade	Sub-standard grade	Past due but not impaired	Individually impaired	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Balances with the UAE Central Bank	**1,933,077**	-	-	-	-	**1,933,077**
Due from banks	**181,948**	**231,580**	-	-	-	**413,528**
Loans and advances (Gross)						
- Corporate	**74,515**	**8,415,955**	**1,200,730**	**106,974**	**1,038,220**	**10,836,394**
- Retail	-	**3,141,858**	-	**12,040**	**168,214**	**3,322,112**
Investments	**2,140,548**	**1,263,687**	-	-	-	**3,404,235**
Other assets	**271,307**	**546,172**	**60,104**	-	-	**877,583**
	4,601,395	**13,599,252**	**1,260,834**	**119,014**	**1,206,434**	**20,786,929**
31 December 2016						
Balances with the UAE Central Bank	2,658,912	-	-	-	-	2,658,912
Due from banks	104,117	260,959	-	-	-	365,076
Loans and advances (Gross)						
- Corporate	424,538	7,517,836	1,702,293	328,452	703,291	10,676,410
- Retail	-	3,515,836	-	20,297	122,011	3,658,144
Investments	2,469,548	835,048	-	-	-	3,304,596
Other assets	166,083	567,718	90,688	-	-	824,489
	5,823,198	12,697,397	1,792,981	348,749	825,302	21,487,627

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26. RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Past due but not impaired

Past due loans and advances include those that are past due on their repayment schedule. The majority of the past due loans are not considered to be impaired. Aging analysis of past due but not impaired loans and advances is as follows:

31 December 2017	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Loans and advances	**47,901**	**36,489**	**4,488**	**30,136**	**119,014**
31 December 2016					
Loans and advances	91,439	15,619	26,450	215,241	348,749

Approximately 90 % (2016: 93 %) of the above loans are advanced to the corporate sector.

Carrying amount per class of on-balance sheet financial assets whose terms have been renegotiated

	2017	2016
	AED'000	AED'000
Loans and advances	**1,049,297**	1,414,555

Collateral held and other credit enhancements

The Group holds collateral and other credit enhancements against certain of its credit exposures. The main types of collateral obtained are cash, securities, charge over real estate properties, vehicles, plant and machinery, inventory and trade receivables. The Group also obtains guarantees from parent companies for loans to their subsidiaries or other group companies. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. Collateral is generally not held against non-trading investment and due from banks and financial institutions. Management monitors the market value of collateral and wherever necessary the Group requests collateral in accordance with the underlying agreement and considers collateral value during its periodic review of credit facilities and adequacy of provision for impairment on loans and advances.

26. RISK MANAGEMENT (CONTINUED)

Collateral held and other credit enhancements (continued)

The percentage of collateralized exposure and the principal types of collateral held against loans and advances are as follows:

	Percentage of collateralized exposure		Principal type of collateral held
	2017	2016	
Retail Mortgage loans	**100%**	100%	Residential property
Corporate customers	**65%**	51%	Cash, securities, vehicles, property and equipment, commercial property, inventory and trade receivables

Retail Mortgage loans
Credit exposures on retail mortgage loans by range of loans to value (LTV) ratio are as follows:

	2017	2016
	AED'000	AED'000
LTV ratio		
Less than 50%	**314,366**	331,068
51- 70%	**909,562**	889,410
71- 90%	**818,643**	642,716
91- 100%	**48,268**	7,343
More than 100%	**-**	517
Total	**2,090,839**	1,871,054

LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

26. RISK MANAGEMENT (CONTINUED)

Collateral held and other credit enhancements (continued)

Impaired loans:
For impaired loans the value of collateral is based on the most recent appraisals. Credit exposure on impaired retail mortgage loans by range of LTV ratio are as follows:

	2017	2016
	AED'000	AED'000
LTV ratio		
Less than 50%	**5,511**	4,009
51- 70%	**32,133**	14,074
More than 70%	**26,327**	25,088
Total	**63,971**	43,171

At 31 December 2017, the net carrying amount of impaired loans and advances to retail customers (including mortgages) amounted to AED 168,214,000 (2016: AED 122,011,000) and the value of identifiable collateral held against those loans and advances amounted to AED 100,120,000 (2016: AED 76,401,000).

Corporate customers
At 31 December 2017, the net carrying amount of impaired loans and advances to corporate customers amounted to AED 1,038,220,000 (2016: AED 703,291,000) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to AED 410,905,000 (2016: AED 178,952,000). For each loan, the value of disclosed collateral is capped to the nominal amount of the loan that is held against.

Liquidity risk
Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stressed circumstances. To limit this risk, management have arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

26. RISK MANAGEMENT (CONTINUED)

Collateral held and other credit enhancements (continued)

The Group maintains a portfolio of marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a statutory deposit with the Central Bank of UAE equal to 14% of current deposits and 1% of time deposits. In accordance with the Group's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

The most important of these is to maintain the regulatory limits for Lending to Stable Resources and Eligible Liquid Assets to total liabilities ratios. The Group stresses the importance of current accounts, time deposits and savings accounts as a source of funds to finance its lending to customers. They are monitored using the lending to stable resources ratio, which compares loans and advances to customers as a percentage of core customer current and savings accounts, together with medium term borrowing. Eligible Liquid Assets ratio was introduced by Central Bank of the UAE in 2015 and replaced the Liquid Assets ratio. Eligible liquid assets consist of cash, balances with the Central Bank of UAE, short term bank deposits and eligible debt securities.

The ratios as at the year-end were as follows:

	2017	2016
Lending to Stable Resources Ratio	**82.0%**	77.5%
Eligible Liquid Assets Ratio	**15.3%**	19.2%

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26. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Maturities of assets and liabilities based on the remaining period at the statement of financial position date to the contractual maturity date not taking account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds, as at 31 December 2017 is as follows:

	Less than 3 months	From 3 months to 6 months	From 6 months to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Undated	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets									
Cash and balances with the UAE Central Bank	2,016,628	-	-	2,016,628	-	-	-	-	2,016,628
Due from other banks	413,528	-	-	413,528	-	-	-	-	413,528
Loans and advances (Gross)	3,055,615	1,025,253	521,987	4,602,855	3,808,719	5,746,932	9,555,651	-	14,158,506
Investments	183,680	-	130,767	314,447	1,115,905	1,973,883	3,089,788	9,201	3,413,436
Property, equipment and capital work-in-progress	-	-	-	-	-	-	-	589,960	589,960
Other assets	703,637	94,221	36,992	834,850	331,960	9,991	341,951	-	1,176,801
Provision for impairment on loans and advances	(1,030,159)	-	-	(1,030,159)	-	-	-	-	(1,030,159)
Total assets	**5,342,929**	**1,119,474**	**689,746**	**7,152,149**	**5,256,584**	**7,730,806**	**12,987,390**	**599,161**	**20,738,700**
Liabilities and shareholders' equity									
Due to banks	651,521	249,716	91,808	993,045	550,845	-	550,845	-	1,543,890
Customers' deposits	10,889,472	2,085,233	1,736,069	14,710,774	339,143	-	339,143	-	15,049,917
Medium term borrowings	-	-	844,629	844,629	-	-	-	-	844,629
Other liabilities	902,873	95,665	26,054	1,024,592	71,860	11,066	82,926	28,116	1,135,634
Shareholders' equity	-	-	-	-	-	-	-	2,164,630	2,164,630
Total liabilities and shareholders' equity	**12,443,866**	**2,430,614**	**2,698,560**	**17,573,040**	**961,848**	**11,066**	**972,914**	**2,192,746**	**20,738,700**
Net liquidity gap	**(7,100,937)**	**(1,311,140)**	**(2,008,814)**	**(10,420,891)**	**4,294,736**	**7,719,740**	**12,014,476**	**(1,593,585)**	**-**

26. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

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

	Less than 3 months	From 3 months to 6 months	From 6 months to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Undated	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets									
Cash and balances with the UAE Central Bank	2,466,528	150,000	150,000	2,766,528	-	-	-	-	2,766,528
Due from other banks	240,076	125,000	-	365,076	-	-	-	-	365,076
Loans and advances (Gross)	3,492,042	537,042	696,615	4,725,699	5,093,160	4,515,695	9,608,855	-	14,334,554
Investments	239,007	55,904	-	294,911	1,080,933	1,928,752	3,009,685	9,157	3,313,753
Investment property	-	-	-	-	-	-	-	-	-
Property, equipment and capital work-in-progress	-	-	-	-	-	-	-	584,325	584,325
Other assets	538,105	118,080	137,712	793,897	75,094	7,309	82,403	-	876,300
Provision for impairment on loans and advances	(988,992)	-	-	(988,992)	-	-	-	-	(988,992)
Total assets	5,986,766	986,026	984,327	7,957,119	6,249,187	6,451,756	12,700,943	593,482	21,251,544
Liabilities and shareholders' equity									
Due to banks	434,468	-	220,338	654,806	440,676	-	440,676	-	1,095,482
Customers' deposits	11,154,900	2,011,526	1,604,571	14,770,997	767,018	-	767,018	-	15,538,015
Medium term borrowings	-	-	91,808	91,808	1,432,197	-	1,432,197	-	1,524,005
Other liabilities	686,642	104,764	118,392	909,798	43,889	23,523	67,412	30,115	1,007,325
Shareholders' equity	-	-	-	-	-	-	-	2,086,717	2,086,717
Total liabilities and shareholders' equity	12,276,010	2,116,290	2,035,109	16,427,409	2,683,780	23,523	2,707,303	2,116,832	21,251,544
Net liquidity gap	(6,289,244)	(1,130,264)	(1,050,782)	(8,470,290)	3,565,407	6,428,233	9,993,640	(1,523,350)	-

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26. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

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

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2017						
Due to banks	**41,942**	**610,786**	**346,617**	**568,041**	**-**	**1,567,386**
Customers' deposits	**3,930,507**	**7,061,768**	**3,904,810**	**355,767**	**-**	**15,252,852**
Medium term borrowings	**-**	**-**	**866,227**	**-**	**-**	**866,227**
Other liabilities	**190,956**	**575,428**	**92,121**	**25,700**	**-**	**884,205**
Financial derivatives	**-**	**9,416**	**28,249**	**141,759**	**75,122**	**254,546**
Total undiscounted financial liabilities	**4,163,405**	**8,257,398**	**5,238,024**	**1,091,267**	**75,122**	**18,825,216**
31 December 2016						
Due to banks	12,491	423,560	224,111	456,399	-	1,116,561
Customers' deposits	4,538,475	6,684,980	3,686,877	800,888	-	15,711,220
Medium term borrowings	-	-	94,481	1,497,277	-	1,591,758
Other liabilities	171,586	393,462	209,443	18,052	-	792,543
Financial derivatives	-	6,524	19,571	102,118	57,590	185,803
Total undiscounted financial liabilities	4,722,552	7,508,526	4,234,483	2,874,734	57,590	19,397,885

26. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, these amounts may be settled gross or net. The following table shows the corresponding carrying amounts.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2017						
Inflows	-	6,455	20,983	125,950	74,844	228,232
Outflows	-	(9,416)	(28,249)	(141,759)	(75,122)	(254,546)
Net	-	(2,961)	(7,266)	(15,809)	(278)	(26,314)
Discounted at applicable interbank rates	-	(2,911)	(7,133)	(15,467)	(273)	(25,784)
31 December 2016						
Inflows	-	2,528	8,577	70,514	51,947	133,566
Outflows	-	(6,524)	(19,571)	(102,118)	(57,590)	(185,803)
Net	-	(3,996)	(10,994)	(31,604)	(5,643)	(52,237)
Discounted at applicable interbank rates	-	(3,956)	(10,872)	(31,063)	(5,522)	(51,413)

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26. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

The table below shows the contractual maturity profile of the Group's contingent liabilities and commitments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2017						
Contingent Liabilities	-	3,020,692	784,191	237,582	-	4,042,465
Commitments	2,496,648	-	-	-	-	2,496,648
Total	2,496,648	3,020,692	784,191	237,582	-	6,539,113
31 December 2016						
Contingent Liabilities	-	2,345,876	1,059,837	233,093	-	3,638,806
Commitments	2,716,966	-	-	-	-	2,716,966
Total	2,716,966	2,345,876	1,059,837	233,093	-	6,355,772

The Group expects that not all of the contingent liabilities or commitments will be drawn and therefore the actual cash flows are expected to be significantly lower than those reflected in the above table.

26. RISK MANAGEMENT (CONTINUED)

Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Group's Asset and Liability Committee (ALCO).

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury in its day-to-day monitoring activities.

26. RISK MANAGEMENT (CONTINUED)

Interest rate risk (continued)

The following table summarises interest rate sensitivity position at the year end. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Non-Interest Sensitive**	**Carrying amount**
31 December 2017	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets						
Cash and balances with the UAE Central Bank	**1,000,000**	-	-	-	**1,016,628**	**2,016,628**
Due from other banks	**210,173**	-	-	-	**203,355**	**413,528**
Loans and advances	**8,040,178**	**1,396,224**	**2,683,795**	**1,008,150**	-	**13,128,347**
Investments	**220,403**	**130,767**	**1,237,794**	**1,815,273**	**9,199**	**3,413,436**
Investment property	-	-	-	-	-	-
Property, equipment and capital work-in-progress	-	-	-	-	**589,960**	**589,960**
Other assets	-	-	-	-	**1,176,801**	**1,176,801**
Total assets	**9,470,754**	**1,526,991**	**3,921,589**	**2,823,423**	**2,995,943**	**20,738,700**
Liabilities and shareholders' equity						
Due to banks	**1,351,384**	**150,564**	-	-	**41,942**	**1,543,890**
Customers' deposits	**7,134,011**	**3,751,868**	**332,477**	-	**3,831,561**	**15,049,917**
Medium term borrowings	**844,629**	-	-	-	-	**844,629**
Other liabilities	-	-	-	-	**1,135,634**	**1,135,634**
Shareholders' equity	-	-	-	-	**2,164,630**	**2,164,630**
Total liabilities and shareholders' equity	**9,330,024**	**3,902,432**	**332,477**	-	**7,173,767**	**20,738,700**
On-balance sheet	**140,730**	**(2,375,441)**	**3,589,112**	**2,823,423**	**(4,177,824)**	-
Off-balance sheet	**1,995,745**	-	-	-	**18,531,931**	**20,527,676**
Cumulative interest rate sensitivity gap	**2,136,475**	**(238,966)**	**3,350,146**	**6,173,569**	**20,527,676**	-

26. RISK MANAGEMENT (CONTINUED)

Interest rate risk (continued)

31 December 2016	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-Interest Sensitive	Carrying amount
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets						
Cash and balances with the UAE Central Bank	900,000	300,000	-	-	1,566,528	2,766,528
Due from other banks	65,654	125,000	-	-	174,422	365,076
Loans and advances	7,530,238	1,320,091	3,736,589	758,644	-	13,345,562
Investments	239,007	55,904	1,080,933	1,928,752	9,157	3,313,753
Investment property	-	-	-	-	-	-
Property, equipment and capital work-in-progress	-	-	-	-	584,325	584,325
Other assets	-	-	-	-	876,300	876,300
Total assets	8,734,899	1,800,995	4,817,522	2,687,396	3,210,732	21,251,544
Liabilities and shareholders' equity						
Due to banks	1,082,991	-	-	-	12,491	1,095,482
Customers' deposits	6,890,254	3,528,792	758,565	-	4,360,404	15,538,015
Medium term borrowings	1,524,005	-	-	-	-	1,524,005
Other liabilities	-	-	-	-	1,007,325	1,007,325
Shareholders' equity	-	-	-	-	2,086,717	2,086,717
Total liabilities and shareholders' equity	9,497,250	3,528,792	758,565	-	7,466,937	21,251,544
On-balance sheet	(762,351)	(1,727,797)	4,058,957	2,687,396	(4,256,205)	-
Off-balance sheet	1,063,964	-	-	-	16,130,281	17,194,245
Cumulative interest rate sensitivity gap	301,613	(1,426,184)	2,632,773	5,320,169	17,194,245	-

26. RISK MANAGEMENT (CONTINUED)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement.

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2017, including the effect of hedging instruments.

	2017		2016	
	Change in basis points	Sensitivity of net interest income and equity	Change in basis points	Sensitivity of net interest income and equity
	AED '000	AED '000	AED '000	AED '000
Increase in rate	**+25**	**22,633**	+25	16,051
Decrease in rate	**-25**	**(22,633)**	-25	(16,051)

The interest rate sensitivity set out above relates primarily to the US Dollar as the Group does not have any significant net exposure for non-trading floating rate financial assets and financial liabilities denominated in other currencies.

The Bank is also exposed to fair value risk arising from its unhedged fixed rate bonds portfolio. A change in the fair value of these bonds by +/- 5% will result in a positive/negative change in the fair value reserve in equity by AED 2,700,000 (2016: AED 1,500,000).

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

As the UAE Dirham and most of the GCC currencies are currently pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

The tables below indicates the currencies to which the Group had significant exposure at 31 December 2017 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AED, with all other variables held constant on the consolidated statement of income (due to the fair value of currency sensitive monetary assets and liabilities) and equity. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

26. RISK MANAGEMENT (CONTINUED)

Currency risk (continued)

	2017		2016	
Currency	**Change in currency rate in %**	**Effect on profit AED'000**	**Change in currency rate in %**	**Effect on profit AED'000**
EUR	**+10**	**56**	+10	7
GBP	**+10**	**9**	+10	(1)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

27. SEGMENTAL ANALYSIS

For the purposes of reporting to the chief operating decision makers, the Group is organised into four segments:

Corporate banking	-	principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;
Retail banking	-	principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities as well as Islamic banking services;
Treasury	-	principally providing money market, trading and treasury services, as well as the management of the Group's funding operations including overseeing the operations of Al Sadarah Investment Company; and
Others	-	includes the non-core lending portfolio of SME and Personal Loans to Self-Employed businesses.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is debited / credited to business segments based on a pool rate which approximates the marginal cost of funds.

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27. SEGMENTAL ANALYSIS (CONTINUED)

Segmental information for the year ended 31 December 2017 is as follows:

	Corporate banking	Retail banking	Treasury	Others	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Net interest income	**271,226**	**113,267**	**57,311**	**47,637**	**489,441**
Other operating income	**130,695**	**26,293**	**29,325**	**1,334**	**187,647**
Operating expenses	**(173,787)**	**(111,556)**	**(46,662)**	**(38,463)**	**(370,468)**
Net impairment losses	**(31,860)**	**(94,780)**	**-**	**(162,637)**	**(289,277)**
Profit / (loss) for the year	**196,274**	**(66,776)**	**39,974**	**(152,129)**	**17,343**
Capital Expenditure					
-Property and equipment	**26,104**	**16,137**	**4,272**	**949**	**47,462**
At 31 December 2017					
Segment Assets	**11,267,933**	**3,259,425**	**5,954,353**	**256,989**	**20,738,700**
Segment Liabilities	**12,423,029**	**3,483,529**	**2,477,467**	**190,045**	**18,574,070**

Segmental information for the year ended 31 December 2016 was as follows:

	Corporate banking	Retail Banking	Treasury	Others	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Net interest income	323,748	125,341	38,089	146,432	633,610
Other operating income	107,791	33,673	82,126	4,169	227,759
Operating expenses	(173,402)	(137,688)	(40,863)	(20,673)	(372,626)
Net impairment losses	(504,625)	(66,390)	-	(440,419)	(1,011,434)
Profit / (loss) for the year	(246,488)	(45,064)	79,352	(310,491)	(522,691)
Capital Expenditure					
- Property and equipment	14,462	23,394	3,828	851	42,535
At 31 December 2016					
Segment Assets	10,688,533	3,367,086	6,555,320	640,605	21,251,544
Segment Liabilities	11,913,057	4,318,704	2,702,294	230,772	19,164,827

The Group operates in only one geographic area, the Middle East. Accordingly, no geographical analysis of operating income, net profit and net assets is given.

28. FAIR VALUES OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

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

Level 1	-	quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2	-	other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3	-	techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial instruments and assets recorded at fair value

The following table shows an analysis of financial instruments and assets recorded at fair value by level of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
December 2017 31				
Available-for-sale investments				
Quoted				
Government debt securities	**1,314,799**	**-**	**-**	**1,314,799**
Other debt securities	**1,874,450**	**-**	**-**	**1,874,450**
Equities	**8,824**	**-**	**-**	**8,824**
Unquoted				
Equities	**-**	**-**	**377**	**377**
Total	**3,198,073**	**-**	**377**	**3,198,450**
Held for trading investments				
Quoted				
Other debt securities	**196,497**	**-**	**-**	**196,497**
Derivative assets				
Forward contracts	**-**	**100,149**	**-**	**100,149**
Interest rate swaps	**-**	**10,562**	**-**	**10,562**
Currency swaps	**-**	**49**	**-**	**49**
Total	**-**	**110,760**	**-**	**110,760**
Total financial assets	**3,394,570**	**110,760**	**377**	**3,505,707**
Derivative liabilities				
Forward contracts	**-**	**74,168**	**-**	**74,168**
Interest rate swaps	**-**	**14,765**	**-**	**14,765**
Currency options	**-**	**15**	**-**	**15**
Total financial liabilities	**-**	**88,948**	**-**	**88,948**

28. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments and assets recorded at fair value (continued)

	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2016				
Available-for-sale investments				
Quoted				
Government debt securities	1,128,711	-	-	1,128,711
Other debt securities	1,956,218	-	-	1,956,218
Equities	9,081	-	-	9,081
Unquoted				
Equities	-	-	76	76
Total	3,094,010	-	76	3,094,086
Held for trading investments				
Quoted				
Government debt securities	201,095	-	-	201,095
Other debt securities	18,572	-	-	18,572
Total	219,667	-	-	219,667
Derivative assets				
Forward contracts	-	100,963	-	100,963
Interest rate swaps	-	8,133	-	8,133
Currency swaps	-	867	-	867
Total	-	109,963	-	109,963
Total financial assets	3,313,677	109,963	76	3,423,716
Derivative liabilities				
Forward contracts	-	52,820	-	52,820
Interest rate swaps	-	29,120	-	29,120
Currency options	-	867	-	867
Total financial liabilities	-	82,807	-	82,807

The following is a description of the determination of fair value for financial instruments and assets which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

28. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

28.1 DERIVATIVES

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency options and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

28.2 INVESTMENTS AVAILABLE-FOR-SALE

Financial investments valued using a valuation technique or pricing models primarily consist of unquoted equities. These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

28.3 MOVEMENTS IN LEVEL 3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

During the year the Group has invested in unquoted shares of a company amounting to AED 301,000 which have been categorised as level 3. There was no other movement between the levels of financial instruments during the year (2016: Nil).

28.4 GAINS OR LOSSES ON LEVEL 3 FINANCIAL INSTRUMENTS INCLUDED IN THE PROFIT OR LOSS FOR THE YEAR:

No gains or losses on level 3 financial instruments were included in the profit or loss for the year (2016: Nil).

28.5 IMPACT ON FAIR VALUE OF LEVEL 3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE OF CHANGES TO KEY ASSUMPTIONS

The impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument is negligible.

28.6 FINANCIAL INSTRUMENTS NOT RECORDED AT FAIR VALUE

The fair values of financial instruments not recorded at fair value includes cash and balances with UAE Central Bank, due from other banks, loans and advances, other assets (excluding derivative assets), due to banks, customers' deposits and other liabilities (excluding derivative liabilities) that are categorised as level two based on market observable inputs. The fair values of financial instruments not recorded at fair value are not materially different to their carrying values.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

28. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

28.6 Financial instruments and assets recorded at fair value (continued)

28.6.1 Asset for which fair value approximates carrying value

For financial assets and financial liabilities that have short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without specific maturity.

28.6.2 Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit and maturity. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

29. CAPITAL ADEQUACY

The Group actively manages the capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules / ratios") and adopted by the Central Bank of UAE in supervising the Bank.

29.1 CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital base and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital base, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

29. CAPITAL ADEQUACY (CONTINUED)

The risk asset ratio calculations, in accordance with the capital adequacy guidelines as per Basel II accord established for the global banking industry, are as follows:

Risk Weighted Exposures	2017 AED'000	2016 AED'000
Credit Risk	**16,045,234**	15,037,547
Market Risk	**35,796**	172,276
Operational Risk	**1,759,413**	2,185,685
Total Risk Weighted Exposures	**17,840,443**	17,395,508

Tier I and II Capital		
Tier I Capital	**2,141,745**	2,124,361
Tier II Capital	**211,211**	150,325
Capital Base	**2,352,956**	2,274,686

29.2 CAPITAL RATIO:

Total regulatory capital as a percentage of total risk weighted assets	**13.2%**	13.1%
Total tier I regulatory capital as a percentage of total risk weighted assets	**12.0%**	12.2%

Regulatory capital consists mainly of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation less accrued dividends. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the Central Bank of UAE. The other component of regulatory capital is Tier 2 capital, which includes general provisions and cumulative changes in fair values.

The Group has complied with all the requirements as set by the Central Bank of UAE in respect of capital adequacy.

30. SOCIAL CONTRIBUTION

Social contributions made during the year amount to Nil (2016: Nil)

31. SUBSEQUENT EVENT

On 15 January 2018, the Bank held an Extraordinary General Meeting to approve a rights issue, offering existing shareholders 1 ordinary share for every 2 ordinary shares held. The rights issue when fully paid up will result in an increase in the paid up share capital of the Bank by AED 687,500,000 from AED 1,375,000,000 (1,375,000,000 ordinary shares) to AED 2,062,500,000 (2,062,500,000 ordinary shares).

BASEL II AND III - PILLAR 3 DISCLOSURES

These disclosures are being made in compliance with Circular No. 52/2017 dated 17 January 2018 issued by the Central Bank of the UAE and are in conformity with Basel III capital adequacy calculations for 31 December 2017 prepared in line with the circular. References have been made to the audited financial statements of 31 December 2017 for additional details only, where considered relevant.

These disclosures pertain to the operations of United Arab Bank (the "Bank") and its subsidiary (the "Group") as at 31 December 2017.

BASEL - II

A. CAPITAL STRUCTURE UNDER BASEL II

Category	Summarized terms & conditions and main features	2017 AED'000	2016 AED'000
Tier 1 Capital			
1. Paid up share capital	Ordinary Shares of AED 1 each	**1,375,033**	1,375,033
2. Reserves			
a. Statutory reserve (incl. Share Premium)	Under Article 192 of UAE Commercial Companies Law No 8 of 1984	**496,948**	495,214
b. Special reserve	Under Article 82 of Union Law No. 10 of 1980	**414,393**	412,659
c. General Reserve	As per Shareholders' resolution on recommendation of Board	**9,311**	9,311
d. Retained earnings	After transfer of Net Profit but before appropriations for the year	**(153,940)**	(167,856)
Tier 1 Capital - Subtotal		**2,141,745**	2,124,361
Tier 2 Capital			
General provisions	In terms of rules laid down by the Central Bank of the UAE	**200,565**	187,969
Revaluation reserve	Revaluation reserve on Bank's property assets	**632**	673
Cumulative changes in fair values	Unrealized loss on available-for-sale investments	**10,014**	(38,317)
Tier 2 Capital - Subtotal		**211,211**	150,325
Tier 3 Capital		**-**	-
Total eligible Capital after deductions - Capital Base		**2,352,956**	2,274,686

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BASEL II - PILLAR 3 DISCLOSURES
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B. CAPITAL ADEQUACY

a) Qualitative Disclosures

The Bank has adopted the Standardized Approach for computation of Credit and Market Risks and the Basic Indicator Approach for Operational Risks, in terms of guidelines for implementation of Basel II capital accord issued by the Central Bank of the UAE under Circular No. 27/2009 dated 17 November 2009.

Risk Management objectives and policies

The Bank operates a Group Risk Department headed by the Chief Risk Officer (CRO). This department is responsible for managing all three risk segments, namely Credit, Market and Operational risks. The Bank also possesses a Board Audit Committee (BAC) and Board Risk Committee (BRC), which approves the Bank's policies on all audit and risk issues and provides oversight of the Audit, Risk and Compliance functions of the Bank. These steps ensure that the risk management framework has a solid foundation and is able to address all relevant risks in a coordinated and well structured manner.

Credit Risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Bank. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as geographic location.

The Bank has a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating which are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and to take corrective action.

Market Risk

The main components of the Bank's Market Risk are interest risk, foreign exchange risk and equity price risk. Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank's Treasury function manages this risk through monitoring of such gaps on a regular basis.

Fluctuations in exchange rates for different currencies are a source of Foreign Exchange Risk. The Board has established limits on the open Foreign Exchange position in order to manage such risks. These forex positions are monitored on a daily basis and hedging strategies are used by the Treasury function to ensure that positions are maintained within the established limits.

Equity Price risk arises due to fluctuations in prices of Bank's equity holdings. This risk is avoided by keeping exposures at very low levels, besides regular monitoring of the prices.

In addition to the above safeguards, market risks are also reviewed on a regular basis by the Bank's Asset and Liability Committee (ALCO) and corrective measures taken where considered necessary.

B. CAPITAL ADEQUACY (CONTINUED)

a) Qualitative Disclosures (continued)

Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, and / or lead to financial loss.

The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage these risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes (including the activities of Internal Audit).

b) Quantitative Disclosures

In terms of Circular No. 27/2009 dated 17 November 2009 issued by the Central Bank of the UAE, the minimum capital requirement is 12% of Total Risk Weighted Assets. Computations of the Group's Capital Adequacy Ratio are as follows:

Category	**2017**	2016
	AED'000	AED'000
Risk Weighted Assets		
1. Credit Risk - Standardized Approach	**16,045,234**	15,037,547
2. Market Risk - Standardized Approach	**35,796**	172,276
3. Operational Risk - Basic Indicator Approach	**1,759,413**	2,185,685
Total Risk Weighted Assets	**17,840,443**	17,395,508
Capital Base	**2,352,956**	2,274,686
Capital Ratio (%)		
a. Total for the Group	**13.2%**	13.1%
b. Tier 1 ratio only for the Group	**12.0%**	12.2%

BASEL – III

A. CAPITAL STRUCTURE UNDER BASEL III

Category	Summarized terms & conditions and main features	**2017**
		AED'000
Common Equity Tier 1 Capital		
1. Paid up share capital	Ordinary Shares of AED 1 each	**1,375,033**
2. Share premium		
3. Eligible reserves		
a. Statutory reserve	Under Article 192 of UAE Commercial Companies Law No 8 of 1984	**496,948**
b. Special reserve	Under Article 82 of Union Law No. 10 of 1980	**414,393**
c. General Reserve	As per Shareholders' resolution on recommendation of Board	**9,311**
d. Cumulative changes in fair value	Unrealized loss on available-for-sale investments	**10,014**
4. Retained earnings	After transfer of Net Profit but before appropriations for the year	**(153,940)**
Common Equity Tier 1 Capital before regulatory and threshold deductions		**2,151,759**
Less: Regulatory and threshold deductions		**-**
Total Common Equity Tier 1 Capital - Subtotal		**2,151,759**
Additional Tier 1 Capital		**-**
Tier 2 Capital		
General provisions	In terms of rules laid down by the Central Bank of the UAE	**200,565**
Tier 2 Capital - Subtotal		**200,565**
Total eligible Capital after deductions - Capital Base		**2,352,324**

Note – Capital structure under Basel III is not presented for the comparative period, as Basel II guidelines have been applicable from the year 2017 onwards. Kindly refer capital structure for the year 2106 as reported under Basel II section above.

B. CAPITAL ADEQUACY

a) Qualitative Disclosures (refer disclosures under Basel II section above)

The Bank has adopted the Standardized Approach for computation of Credit and Market Risks and the Basic Indicator Approach for Operational Risks, in terms of guidelines for implementation of Basel II capital accord issued by the Central Bank of the UAE under Circular No. 27/2009 dated 17 November 2009, which remain unchanged in the recent Circular No. 52/2017 dated 17 January 2018.

(For risk management objectives and policies, refer disclosures under Basel II section above)

b) Quantitative Disclosures

In terms of Circular No. 52/2017 dated 17 January 2018 issued by the Central Bank of the UAE, the minimum capital requirement is 10.5% (excluding Capital Conservation buffer of 1.25%) of Total Risk Weighted Assets. Computations of the Group's Capital Adequacy Ratio are as follows:

Category	**2017**
	AED'000
Risk Weighted Assets	
1. Credit Risk - Standardized Approach	**16,045,234**
2. Market Risk - Standardized Approach	**35,796**
3. Operational Risk - Basic Indicator Approach	**1,759,413**
Total Risk Weighted Assets	**17,840,443**
Capital Base	**2,352,324**
Capital Ratio (%)	
a. Total for the Group	**13.2%**
b. Common Equity Tier 1 ratio only for the Group	**12.1%**

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BASEL III - PILLAR 3 DISCLOSURES
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C. CREDIT RISK UNDER STANDARDIZED APPROACH

1. Details of Exposures, Risk Mitigants and Risk Weighted Assets as at 31 December 2017:

Category	On and Off Balance Sheet Exposures (Gross outstanding) AED'000	Specific Provision & Interest in Suspense AED'000	Exposure before Credit Risk Mitigants AED'000	Credit Risk Mitigants AED'000	Exposure after Credit Risk Mitigants AED'000	Exposure after Credit Conversion Factors (CCF) AED'000	Risk Weighted Assets AED'000
Claims on Sovereigns	**2,927,675**	-	**2,927,675**	-	**2,927,675**	**2,927,675**	-
Claims on Non-Central Govt Public Sector Entities (PSEs)	**1,169,725**	-	**1,169,725**	-	**1,169,725**	**1,169,725**	-
Claims on Multi Lateral Development Banks	-	-	-	-	-	-	-
Claims on Banks	**1,897,115**	-	**1,897,115**	-	**1,897,115**	**1,872,311**	**1,075,685**
Claims on Securities Firms	-	-	-	-	-	-	-
Claims on Corporates	**13,184,027**	-	**13,184,027**	-	**13,184,027**	**11,745,437**	**10,319,892**
Claims included in the Regulatory Retail Portfolio	**1,068,759**	-	**1,068,759**	-	**1,068,759**	**1,068,759**	**814,676**
Claims secured by Residential Property	**2,101,773**	-	**2,101,773**	-	**2,101,773**	**2,101,773**	**795,974**
Claims secured by Commercial Real Estate	**799,464**	-	**799,464**	-	**799,464**	**799,464**	**799,464**
Past Due Loans	**1,133,653**	**(755,308)**	**378,345**	-	**378,345**	**378,345**	**464,263**
Higher-Risk Categories	-	-	-	-	-	-	-
Other Assets	**1,859,480**	-	**1,859,480**	-	**1,859,480**	**1,859,480**	**1,775,280**
Claims on Securitized Assets	-	-	-	-	-	-	-
Credit Derivatives (Banks Selling Protection)	-	-	-	-	-	-	-
TOTAL	**26,141,671**	**(755,308)**	**25,386,363**	-	**25,386,363**	**23,922,969**	**16,045,234**

C. CREDIT RISK UNDER STANDARDIZED APPROACH (CONTINUED)

Details of Exposures, Risk Mitigants and Risk Weighted Assets as at 31 December 2016:

Category	On and Off Balance Sheet Exposures (Gross outstanding)	Specific Provision & Interest in Suspense	Exposure before Credit Risk Mitigants	Credit Risk Mitigants	Exposure after Credit Risk Mitigants	Exposure after Credit Conversion Factors (CCF)	Risk Weighted Assets
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Claims on Sovereigns	3,574,465	-	3,574,465	-	3,574,465	3,574,465	-
Claims on Non-Central Govt Public Sector Entities (PSEs)	1,281,284	-	1,281,284	-	1,281,284	1,281,284	-
Claims on Multi Lateral Development Banks	-	-	-	-	-	-	-
Claims on Banks	1,706,116	-	1,706,116	-	1,706,116	1,609,416	872,277
Claims on Securities Firms	-	-	-	-	-	-	-
Claims on Corporates	12,931,286	-	12,931,286	-	12,931,286	11,670,674	9,828,119
Claims included in the Regulatory Retail Portfolio	1,636,796	-	1,636,796	-	1,636,796	1,636,796	1,249,469
Claims secured by Residential Property	1,874,392	-	1,874,392	-	1,874,392	1,874,392	700,223
Claims secured by Commercial Real Estate	653,889	-	653,889	-	653,889	653,889	653,889
Past Due Loans	820,004	(577,590)	242,414	-	242,414	242,414	264,129
Higher-Risk Categories	-	-	-	-	-	-	-
Other Assets	1,572,885	-	1,572,885	-	1,572,885	1,572,885	1,469,441
Claims on Securitized Assets	-	-	-	-	-	-	-
Credit Derivatives (Banks Selling Protection)	-	-	-	-	-	-	-
TOTAL	26,051,117	(577,590)	25,473,527	-	25,473,527	24,116,215	15,037,547

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C. CREDIT RISK UNDER STANDARDIZED APPROACH (CONTINUED)

2. Details of Exposures by Industry segment as at 31 December 2017:

Category	Loans and advances	Investments	Other Assets	Total Funded	Off balance Sheet	Total Unfunded	Total Exposure
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Agriculture, Livestock and Fishery	-	-	-	-	-	-	-
Extractive Industries	37,689	-	-	37,689	9,273	9,273	46,963
Manufacturing Industries	1,595,468	-	177,762	1,773,230	861,601	861,601	2,634,831
Electricity, Gas and Water	18,716	-	-	18,716	16,597	16,597	35,313
Construction	798,066	19,998	45,631	863,695	1,748,718	1,748,718	2,612,413
Wholesale / Retail Trade	2,088,028	-	406,428	2,494,456	666,107	666,107	3,160,563
Restaurants and Hotels	-	-	-	-	-	-	-
Transportation, Storage & Communication	589,825	-	-	589,825	137,814	137,814	727,639
Real Estate and Business Services	-	-	-	-	-	-	-
Social and Private Services	1,461,394	-	44,520	1,505,914	249,592	249,592	1,755,506
Financial Services Sector	1,220,212	337,495	2,549,847	4,107,554	527,934	527,934	4,635,488
Government	479,360	3,046,742	-	3,526,102	-	-	3,526,102
Household / Personal	5,846,945	-	-	5,846,945	154,855	154,855	6,001,800
Others	22,803	-	981,930	1,004,733	321	321	1,005,054
TOTAL	14,158,506	3,404,235	4,206,118	21,768,859	4,372,814	4,372,814	26,141,671

C. CREDIT RISK UNDER STANDARDIZED APPROACH (CONTINUED)

Details of Exposures by Industry Segment as at 31 December 2016:

Category	Loans and advances	Investments	Other Assets	Total Funded	Off balance Sheet	Total Unfunded	Total Exposure
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Agriculture, Livestock and Fishery	-	-	-	-	-	-	-
Extractive Industries	41,262	-	-	41,262	6,879	6,879	48,141
Manufacturing Industries	1,781,030	-	167,888	1,948,918	794,382	794,382	2,743,300
Electricity, Gas and Water	15,233	-	-	15,233	23,872	23,872	39,105
Construction	771,602	-	58,921	830,523	1,380,436	1,380,436	2,210,959
Wholesale / Retail Trade	2,402,202	-	364,015	2,766,217	664,019	664,019	3,430,236
Restaurants and Hotels	-	-	-	-	-	-	-
Transportation, Storage & Communication	396,103	-	-	396,103	191,880	191,880	587,983
Real Estate and Business Services	-	-	-	-	-	-	-
Social and Private Services	1,435,930	-	25,586	1,461,516	234,626	234,626	1,696,142
Financial Services Sector	1,224,798	414,414	3,232,067	4,871,279	397,516	397,516	5,268,795
Government	600,868	2,890,182	-	3,491,050	-	-	3,491,050
Household / Personal	5,646,201	-	-	5,646,201	116,627	116,627	5,762,828
Others	19,325	-	752,906	772,231	347	347	772,578
TOTAL	14,334,554	3,304,596	4,601,383	22,240,533	3,810,584	3,810,584	26,051,117

C. CREDIT RISK UNDER STANDARDIZED APPROACH (CONTINUED)

3. Gross Exposure under Standardized Approach based on External Ratings

a) Qualitative Disclosures

For purposes of computing Risk Weighted Assets, only ratings assigned by ECAIs (External Credit Assessment Institutions) as approved by the Central Bank of the UAE are considered. Acceptable ECAI agencies are Moody's, Fitch and S&P

b) Quantitative Disclosures

Gross Exposure before Credit Risk Mitigants (CRM)

	2017			2016		
Category	Rated	Unrated	Total	Rated	Unrated	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Claims on Sovereigns	2,805,658	122,017	2,927,675	3,265,584	308,881	3,574,465
Claims on Non-Central Govt Public Sector Entities (PSEs)	377,328	792,397	1,169,725	336,136	945,148	1,281,284
Claims on Multi Lateral Development Banks	-	-	-	-	-	-
Claims on Banks	1,797,188	99,927	1,897,115	1,402,674	303,442	1,706,116
Claims on Securities Firms	-	-	-	-	-	-
Claims on Corporates	1,184,125	11,999,902	13,184,027	1,045,798	11,885,487	12,931,285
Claims included in the Regulatory Retail Portfolio	-	1,068,759	1,068,759	-	1,636,797	1,636,797
Claims secured by Residential Property	-	2,101,773	2,101,773	-	1,874,392	1,874,392
Claims secured by Commercial Real Estate	-	799,464	799,464	-	653,889	653,889
Past Due Loans	-	1,133,653	1,133,653	-	242,414	242,414
Higher-Risk Categories	-	-	-	-	-	-
Other Assets	8,519	1,850,961	1,859,480	8,816	1,564,069	1,572,885
Claims on Securitized Assets	-	-	-	-	-	-
Credit Derivatives (Banks Selling Protection)	-	-	-	-	-	-
TOTAL	6,172,818	19,968,853	26,141,671	6,059,008	19,414,519	25,473,527

C. CREDIT RISK UNDER STANDARDIZED APPROACH (CONTINUED)

4. Exposure by Currency Type

The Bank's exposures are mainly in local currency, hence, risk of exposures in foreign currency is minimal. For details kindly refer to Note 26 "Risk Management – Currency Risk" of the Notes to the Financial Statements as at 31 December 2017.

5. Exposure by Geographical Region

The Bank has branches only in the UAE, hence, its exposures are mainly within the country. For details kindly refer to Note 26 "Risk Management – Credit Risk" of the Notes to the Financial Statements as at 31 December 2017.

6. Exposure by Economic Sector

For details kindly refer to Note 26 "Risk Management" of the Notes to the Financial Statements as at 31 December 2017.

7. Exposures by Residual Contractual Maturity

For details kindly refer to Note 26 "Risk Management – Liquidity Risk" of the Notes to the Financial Statements as at 31 December 2017.

8. Past due and impaired loans
a) Qualitative Disclosures
Definitions of past due and impaired

Past due accounts are those where the obligations are not met on the due date.

A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more event(s) that has occurred after the initial recognition of the asset, and based on reliable estimates which impact(s) future cash flows of the financial asset or group of financial assets.

Evidence of impairment may include: (a) indications that the borrower or a group of borrowers is experiencing significant financial difficulty; (b) the probability that they will enter bankruptcy or other financial re-organisation; (c) default or delinquency in interest or principal payments; (d) conduct of the account is not in line with Central Bank of the UAE guidelines; (e) where observable data indicates that there is a measurable decrease in the estimated future cash flows; and (f) where the entity is in arrears or facing economic conditions that correlate with defaults.

Description of approaches followed for creating Specific and General Provisions:

Specific

Specific provisioning on loans and advances are made as follows:

- On Corporate accounts provisions are made in compliance with IAS 39 standards
- On Retail accounts provisions are made as outlined below:

- Substandard accounts	25%
- Doubtful accounts	50%
- Loss accounts	100%

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C. CREDIT RISK UNDER STANDARDIZED APPROACH (CONTINUED)

a) Qualitative Disclosures (Continued)

General

General Provisions are calculated in line with the Central Bank of the UAE guidelines. According to the guidelines, such provisions are required to be increased progressively until 2014 to the level of 1.5% of the Credit Risk Weighted Assets (CRWA) for Loans and Advances and off Balance Sheet commitments (excluding those impaired), computed in terms of Basel II Standardised Approach.

b) Quantitative Disclosures

- Past due and impaired Loans by Industry Segment as at 31 December 2017:

Category	Past due but not impaired				Impaired loans	Provision & Interest in Suspense
	0-30 days Past due	31-60 days past due	61-90 days past due	Over 91 days past due		
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Agriculture, Livestock and Fishery	-	-	-	-	-	-
Extractive Industries	**1,849**	-	-	-	-	-
Manufacturing Industries	**12,907**	**290**	**122**	**120**	**288,883**	**100,376**
Electricity, Gas and Water	**5**	-	-	-	**8,921**	**5,379**
Construction	**2,343**	-	-	-	**778**	**343**
Wholesale / Retail Trade	**15,256**	**11,418**	**306**	**25,881**	**287,061**	**211,436**
Restaurants and Hotels	-	-	-	-	-	-
Transportation, Storage and Communication	**155**	**108**	**108**	**9**	**1,397**	**429**
Real Estate and Business Services	**2,868**	**21,064**	-	-	-	-
Social and Private Services	**5,165**	**1,073**	**1,725**	**2,618**	**399,248**	**310,418**
Financial Services Sector	**33**	-	-	-	-	-
Government	-	-	-	-	-	-
Household / Personal	**7,319**	**2,536**	**2,228**	**1,509**	**220,147**	**147,187**
Total	**47,901**	**36,489**	**4,488**	**30,136**	**1,206,434**	**775,567**

C. CREDIT RISK UNDER STANDARDIZED APPROACH (CONTINUED)

b) Quantitative Disclosures (continued)

- **Past due and impaired loans by industry segment as at 31 December 2016:**

Category	Past due but not impaired				Impaired loans	Provision & Interest in Suspense
	0-30 days Past due	31-60 days past due	61-90 days past due	Over 91 days past due		
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Agriculture, Livestock and Fishery	-	-	-	32	-	-
Extractive Industries	-	-	-	-	-	-
Manufacturing Industries	49,316	6,674	205	13,566	66,499	42,230
Electricity, Gas and Water	-	-	-	-	10,844	27
Construction	2,023	-	-	7,508	23,614	23,165
Wholesale / Retail Trade	11,349	5,061	2,202	184,096	256,572	186,635
Restaurants and Hotels	-	-	-	-	-	-
Transportation, Storage and Communication	9,562	243	400	587	1,983	1,880
Real Estate and Business Services	3,920	-	-	-	-	-
Social and Private Services	2,481	129	19,415	346	333,005	264,503
Financial Services Sector	63	-	-	-	-	-
Government	-	-	-	-	-	-
Household / Personal	12,725	3,512	4,228	9,106	132,785	59,150
Total	91,439	15,619	26,450	215,241	825,302	577,590

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C. CREDIT RISK UNDER STANDARDIZED APPROACH (CONTINUED)

b) Quantitative Disclosures (continued)

- **Past due and impaired loans by Geographical Region as at 31 December 2017:**

Geographic Region	Past due but not impaired				Impaired Loans	Provision & Interest in Suspense
	0-30 days past due	**31-60 days past due**	**61-90 days past due**	**Over 91 days past due**		
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
United Arab Emirates	**47,901**	**36,489**	**4,488**	**30,136**	**1,206,434**	**775,567**
Total	**47,901**	**36,489**	**4,488**	**30,136**	**1,206,434**	**775,567**

- **Past due and impaired loans by Geographical Region as at 31 December 2016:**

Geographic Region	Past due but not impaired				Impaired Loans	Provision & Interest in Suspense
	0-30 days past due	31-60 days past due	61-90 days past due	Over 91 days past due		
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
United Arab Emirates	91,439	15,619	26,450	215,241	825,302	577,590
Total	91,439	15,619	26,450	215,241	825,302	577,590

C. CREDIT RISK UNDER STANDARDIZED APPROACH (CONTINUED)

b) Quantitative Disclosures (continued)

- Reconciliation of changes in Provision for Impaired Loans

	2017 AED'000	2016 AED'000
Balance as at 1 January	**988,992**	819,025
Add: Charge for the year		
Specific Provisions	**546,591**	1,203,795
General Provisions	**2,058**	1,500
Less: Write off of impaired loans	**(273,025)**	(859,594)
Less: Recovery of loans previously written off	**-**	-
Less: Write back of provisions for loans	**(234,457)**	(175,734)
Less: Adjustments of loan loss provisions	**-**	-
Balance as at 31 December	**1,030,159**	988,992

9. Credit Risk Mitigation – Disclosures for Standardized Approach

a) Qualitative Disclosures

The Bank has a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating which is subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and to take corrective action.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are cash, securities, charges over real estate, inventory and trade receivables. The Bank also obtains guarantees from parent companies for loans to their subsidiaries or other Group companies.

The Bank monitors the market value of collateral, and requests additional collateral in accordance with the underlying agreement. It also monitors the market value of collateral obtained, during its review of the adequacy of the allowance for impairment losses. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

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C. CREDIT RISK UNDER STANDARDIZED APPROACH (CONTINUED)

9. Credit Risk Mitigation – Disclosures for Standardized Approach (continued)

b) Quantitative Disclosures

	2017 AED'000	2016 AED'000
Exposures		
Gross Exposure prior to Credit Risk Mitigation	**25,386,363**	25,473,529
Credit Risk Mitigants		
- Direct Deductions:		
Exposure covered by on-balance sheet netting	**-**	-
- Substitution by Risk Weights:		
Exposure covered by Guarantees		
from 100%	**-**	-
to 20%	**-**	-
50%	**-**	-
100%	**-**	-
Exposures covered by collaterals under simple approach		
from 150%	**-**	-
from 100%	**(971,084)**	(1,233,232)
from 75%	**-**	-
to 0%	**971,084**	1,233,232
Net Exposures after Credit Risk Mitigation	**25,386,363**	25,473,529
Risk Weighted Assets	**16,045,234**	15,037,547

D. MARKET RISK UNDER STANDARDISED APPROACH

1. Capital required against Market Risk and equivalent Risk Weighted Assets

	2017 Capital Required AED'000	2016 Capital Required AED'000
Interest rate risk	**2,837**	20,594
Equity position risk	**-**	-
Foreign exchange risk	**150**	79
Commodity risk	**-**	-
Options risk	**771**	-
Total Capital Requirement	**3,758**	20,673
Risk Weighted Assets (Capital requirement divided by 10.5% for 2017 & 12% for 2016)	**35,796**	172,276

D. MARKET RISK UNDER STANDARDISED APPROACH (CONTINUED)

2. Interest Rate Risk

The Bank has nominal Interest Rate Risk on its Trading Book, as shown above.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement. There is no material impact on the Bank's equity.

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2017, including the effect of hedging instruments.

	2017		2016	
	Change in basis points	Sensitivity of Interest Income AED'000	Change in basis points	Sensitivity of Interest Income AED'000
All currencies	+200	181,065	+200	128,412
All currencies	-200	(181,065)	-200	(128,412)

The interest rate sensitivity set out above relates primarily to the US Dollar as the Bank does not have any significant net exposure for non-trading floating rate financial assets and financial liabilities denominated in other currencies.

3. Equity Position Risk

The Bank has no Equity Position on its Trading Book, hence Capital required is nil. However, there are a few investments in its banking book under available for sale category. For details please refer to Note 8 "Investments" of Notes to the Financial Statements at 31 December 2017.

4. Foreign Exchange Risk

For details of Foreign Exchange Risk on both trading and banking books please refer Note 26 "Risk Management – Currency Risk" of the Notes to the Financial Statements at 31 December 2017. As the AED is pegged to the USD, positions in USD and other GCC currencies pegged to the USD are excluded.

5. Options Risk

The Bank's exposure in Options bought and sold are perfectly matched; hence there is no capital charge on such positions.

6. Revaluations Gains / (Losses) During The Year

The Bank accounts for changes in fair values of Available for sale investments (both debt and equity) and fair value hedges through Equity. Details of such charges are provided in "Consolidated Statement of Other Comprehensive Income" in the Financial Statements at 31 December 2017.

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D. MARKET RISK UNDER STANDARDISED APPROACH (CONTINUED)

6. Revaluations Gains / (Losses) During The Year (continued)

Gains / (losses) due to changes in fair values added to / (deducted from) Tier 1 / Tier 2 Capital are as follows:

	2017 AED'000	2016 AED'000
Amount added to / (deducted from) in Common Equity Tier 1 capital	10,014	-
Amount added to / (deducted from) in Tier 2 capital		(38,317)
Total	10,014	(38,317)

E. OPERATIONAL RISK – BASIC INDICATOR APPROACH

Computation of Capital Charge and Risk Weighted Assets equivalent for Operational Risk is as follows:

		2017 AED'000		2016 AED'000
Gross Income (including Interest in suspense)	2015	1,218,979	2014	1,376,855
	2016	874,443	2015	1,218,979
	2017	721,638	2016	901,262
		2,815,060		3,497,096
3-year average		938,353		1,165,699
Beta factor		15%		15%
Capital requirement before applying National Discretion		140,753		174,855
UAE National Discretion Factor		1.5		1.5
Capital requirement after applying National Discretion		211,129		262,282
Risk Weighted Assets equivalent (Capital requirement divided by 12 %)		1,759,413		2,185,685