

United Arab Bank P.J.S.C.

Review report and condensed interim financial statements

For the three months period ended 31 March 2021

United Arab Bank P.J.S.C.

**Review report and condensed interim financial statements
For the three months period ended 31 March 2021**

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Report on review of interim condensed financial statements to the Board of Directors of United Arab Bank P.J.S.C

Introduction

We have reviewed the accompanying interim condensed financial statements of United Arab Bank P.J.S.C. (the "Bank"), which comprise the interim statement of financial position as at 31 March 2021 and the related interim statements of income and comprehensive income, cash flows and changes in equity for the three months period then ended and explanatory notes. Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with International Accounting Standard IAS 34: Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not prepared, in all material respects, in accordance with IAS 34.

For Ernst & Young

Signed by:
Thodla Hari Gopal
Partner
Registration No: 689

5 May 2021

Sharjah, United Arab Emirates

United Arab Bank P.J.S.C.

INTERIM STATEMENT OF FINANCIAL POSITION
For the three months period ended 31 March 2021 (Unaudited)

		<i>Unaudited</i> 31 March 2021 <i>AED'000</i>	<i>Audited</i> 31 December 2020 <i>AED'000</i>
Assets	<i>Note</i>		
Cash and balances with UAE Central Bank	5	1,195,288	1,406,322
Due from other banks	6	570,528	296,525
Loans and advances and Islamic financing receivables	7	8,500,539	9,013,639
Investments and Islamic instruments	8	3,298,524	3,281,726
Property, equipment and capital work-in-progress		320,856	327,790
Other assets		533,250	523,147
TOTAL ASSETS		<u>14,418,985</u>	<u>14,849,149</u>
Liabilities and shareholders' equity			
Liabilities			
Due to banks	9	1,372,906	1,233,470
Customer deposits and Islamic customer deposits	10	10,838,840	11,246,835
Other liabilities		772,242	914,301
Total liabilities		<u>12,983,988</u>	<u>13,394,606</u>
Shareholders' equity			
Share capital	4	2,062,550	2,062,550
Statutory reserve		28,924	28,924
General reserve		9,311	9,311
Revaluation reserve		-	517
Cumulative changes in fair value		(9,248)	20,498
Accumulated losses		(656,540)	(667,257)
Total shareholders' equity		<u>1,434,997</u>	<u>1,454,543</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>14,418,985</u>	<u>14,849,149</u>

This condensed interim financial information was approved by the Board of Directors on 5th May 2021 and signed on its behalf by:


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


.....
Ahmad Abu Elnen
Chief Executive Officer

The notes on pages 8 to 30 form an integral part of the condensed interim financial information. The independent auditors' report on review of the Bank's condensed interim financial information is set out on page 2.

United Arab Bank P.J.S.C.

INTERIM STATEMENT OF INCOME

For the three months period ended 31 March 2021 (Unaudited)

		<i>Three months period ended 31 March (Unaudited)</i>	
		2021	2020
		AED'000	AED'000
Interest income		114,822	180,286
Income from Islamic financing products		6,548	12,560
Total interest income and income from Islamic financing products		121,370	192,846
Interest expense		(41,950)	(81,608)
Distribution to depositors – Islamic products		(15,286)	(23,586)
Total interest expense and distribution to depositors		(57,236)	(105,194)
Net interest income and income from Islamic products net of distribution to depositors		64,134	87,652
Net fees and commission income		11,549	12,740
Foreign exchange income		4,312	4,568
Other operating income		52,324	20,654
Total operating income		132,319	125,614
Employee benefit expenses		(35,328)	(38,083)
Depreciation		(6,811)	(7,686)
Other operating expenses		(17,503)	(17,809)
Total operating expenses		(59,642)	(63,578)
Profit before impairment loss		72,677	62,036
Net impairment losses	12	(62,477)	(181,979)
Net profit / (loss) for the period		10,200	(119,943)
Earnings / (losses) per share (basic and diluted in AED)	4	0.01	(0.06)

The notes on pages 8 to 30 form an integral part of the condensed interim financial information. The independent auditors' report on review of the Bank's condensed interim financial information is set out on page 2. 4

United Arab Bank P.J.S.C.

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the three months period ended 31 March 2021 (Unaudited)

	<i>Three months period ended 31 March (unaudited)</i>	
	<i>2021 AED'000</i>	<i>2020 AED'000</i>
Net profit / (loss) for the period	10,200	(119,943)
Other comprehensive income / (loss)		
<i>Items that are or may be reclassified subsequently to the statement of income</i>		
Fair value through other comprehensive income (FVOCI):		
Net change in fair value during the period	(55,631)	(271,917)
Change in allowance for expected credit losses	4,246	(3,710)
Reclassified to the income statement	21,639	(128,732)
Other comprehensive loss for the period	(29,746)	(404,359)
Total comprehensive loss for the period	(19,546)	(524,302)

United Arab Bank P.J.S.C.

INTERIM STATEMENT OF CASH FLOWS

For the three months period ended 31 March 2021 (Unaudited)

		<i>Three months period ended 31 March (unaudited)</i>	
		<i>2021 AED'000</i>	<i>2020 AED'000</i>
Operating activities			
	Net profit / (loss) for the period	10,200	(119,943)
	Adjustments for:		
	Depreciation	6,811	7,686
	Loss on write off of property, equipment and capital work-in-progress	-	1,075
	Gain on sale of property and equipment	(2,904)	(90)
	Gain on sale of assets acquired in settlement of debt	(846)	-
	Net impairment losses	62,477	181,979
	Amortisation of premium paid on investments	3,729	5,702
	Net fair value loss / (gain) on disposal of investments and Islamic instruments	(42,000)	(4,113)
	Unrealised loss on investments	24	465
	Operating cash flows before movements in working capital	37,491	72,761
	Changes in operating assets and liabilities:		
	Loans and advances and Islamic financing receivables	430,784	227,040
	Balances with the UAE Central Bank maturing after three months	4,072	(3,951)
	Cash margin held by counterparty banks against borrowings and derivative transactions	56,648	(115,500)
	Other assets	(13,434)	19,064
	Due to banks maturing after three months	(230,835)	953,523
	Customer deposits and Islamic customer deposits	(407,995)	(1,483,978)
	Other liabilities	(57,426)	(117,533)
	Net cash used in operating activities	(180,695)	(448,574)
	Investing activities		
	Purchase of property, equipment and capital work-in-progress	(3,243)	(4,877)
	Purchase of investments	(749,721)	(5,966)
	Proceeds from redemption / sale of investments	676,630	102,698
	Proceeds from sale of property and equipment	7,500	90
	Proceeds from sale of assets acquired in settlement of debt	2,947	-
	Net cash generated (used in) / from investing activities	(65,887)	91,945
	Financing activities		
	Increase in ordinary share capital on rights issue	-	-
	Rights issue costs	-	-
	Net cash used in financing activities	-	-
	Net decrease in cash and cash equivalents	(246,582)	(356,629)
	Cash and cash equivalents at 1 January	746,707	1,100,098
	Cash and cash equivalents at 31 March	500,125	743,469
Cash and cash equivalents comprise the following statement of financial position amounts with original maturities of three months or less:			
	Cash and balances with UAE Central Bank	913,639	1,024,753
	Due from other banks	405,989	135,256
	Due to banks	(819,503)	(416,540)
		500,125	743,469

United Arab Bank P.J.S.C.

INTERIM STATEMENT OF CHANGES IN EQUITY

For the three months period ended 31 March 2021 (Unaudited)

	<i>Share capital AED'000</i>	<i>Special reserve AED'000</i>	<i>Statutory reserve AED'000</i>	<i>General reserve AED'000</i>	<i>Revaluation reserve AED'000</i>	<i>Cumulative changes in fair value AED'000</i>	<i>Accumulated losses AED'000</i>	<i>Total AED'000</i>
At 1 January 2021 (audited)	2,062,550	-	28,924	9,311	517	20,498	(667,257)	1,454,543
Profit for the period	-	-	-	-	-	-	10,200	10,200
Other comprehensive loss for the period	-	-	-	-	-	(29,746)	-	(29,746)
Total comprehensive income for the period	-	-	-	-	-	(29,746)	10,200	(19,546)
Depreciation transfer for land and buildings	-	-	-	-	(6)	-	6	-
Revaluation transfer upon sale of building	-	-	-	-	(511)	-	511	-
At 31 March 2021 (unaudited)	2,062,550	-	28,924	9,311	-	(9,248)	(656,540)	1,434,997
At 1 January 2020 (audited)	2,062,550	422,116	504,671	9,311	555	58,974	(897,863)	2,160,314
Loss for the period	-	-	-	-	-	-	(119,943)	(119,943)
Other comprehensive loss for the period	-	-	-	-	-	(404,359)	-	(404,359)
Total comprehensive income for the period	-	-	-	-	-	(404,359)	(119,943)	(524,302)
Depreciation transfer for land and buildings	-	-	-	-	(10)	-	10	-
At 31 March 2020 (unaudited)	2,062,550	422,116	504,671	9,311	545	(345,385)	(1,017,796)	1,636,012

The notes on pages 8 to 30 form an integral part of the condensed interim financial information. The independent auditors' report on review of the Bank's condensed interim financial information is set out on page 2.

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months period ended 31 March 2021 (Unaudited)

1 LEGAL STATUS 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.

UAE Federal Law No. 2 of 2015 (“Companies Law”) which is applicable to the Bank has come into effect from 1 July 2015. The Bank has assessed, evaluated and ensured compliance with the relevant provisions of the Companies Law.

2. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

2.1 Changes in accounting policies

The accounting policies adopted in the preparation of the condensed interim financial information are consistent with those followed in the preparation of the Bank’s annual financial information for the year ended 31 December 2020, except for the adoption of new standards effective as of 1 January 2021. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Standards, amendments and interpretations that are effective for the Group’s accounting period beginning on 1 January 2021

IBOR reform disclosure – Phase 2

In August 2020, the IASB issued IBOR reform - Phase 2, which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases.

IBOR Reform Phase 2 provides temporary reliefs that allow the Bank’s hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable. The Bank has started a project on transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risk resulting from the transition. The Bank anticipates that IBOR reform will have minimal operational, risk management and accounting impacts across all of its business lines.

2.2 Key accounting estimates and judgments

The preparation of the condensed interim financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may therefore differ resulting in future changes in these estimates. In preparing this condensed interim financial information, significant judgments made by management in applying the Bank’s accounting policies and the key sources of estimation and uncertainty were the same as those that applied to the audited financial statements as at and for the year ended 31 December 2020.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The condensed interim financial information of the Bank has been prepared in accordance with the International Financial Reporting Standards (“IFRS”), International Accounting Standard (IAS) 34: Interim Financial Reporting as issued by International Accounting Standard Board (IASB).

The accounting policies applied by the Bank in the preparation of the condensed interim financial information are consistent with those applied by the Bank in the annual financial statements for the year ended 31 December 2020, except for changes in accounting policies explained in Note 2.

The condensed interim financial information does not include all the information and disclosures required in the annual financial statements prepared in accordance with IFRS and should be read in conjunction with the Bank’s audited financial statements as at and for the year ended 31 December 2020. In addition, results for the three months period ended 31 March 2021 are not necessarily indicative of the results that may be expected for the full financial year ending 31 December 2021.

In preparing this condensed interim financial information, significant judgments made by the management in applying the Bank’s accounting policies and the key sources of estimation were the same as those that were applied to the financial statements as at and for the year ended 31 December 2020 as explained in Note 2.2.

3.2 Significant accounting policies

The accounting policies applied by the Bank in the preparation of the condensed interim financial statements are consistent with those applied by the Bank in the annual audited financial statements for the year ended 31 December 2020, except for changes in accounting policies explained in Note 2.1.

3.3 Going concern

The management has made an assessment of the Bank’s ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future despite the accumulated losses of AED 656,540,000 incurred till 31 March 2021. Management believes that it has adequate liquidity and funding in order to meet its cash flow requirements as and when these fall due. In addition, the Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to its stakeholders. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank’s ability to continue as a going concern. In addition, the Bank continues to remain in compliance with the relevant regulatory thresholds pertaining to capital and liquidity. Therefore, the interim financial statements continue to be prepared on the going concern basis.

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months period ended 31 March 2021 (Unaudited)

4 EARNINGS PER SHARE

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

	<i>Unaudited three months period ended 31 March</i>	
	<i>2021</i>	<i>2020</i>
	<i>AED</i>	<i>AED</i>
Net profit / (loss) for the period	10,200,000	(119,943,000)
<i>Weighted average number of ordinary shares:</i> Weighted average number of shares of AED 1 each outstanding for the period	2,062,550,649	2,062,550,649
Basic earnings per share	AED 0.01	AED (0.06)

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.

The Bank has in its Annual General Assembly (AGA) meeting held on 13 April 2020 obtained the approval of the Bank's shareholders to set off the accumulated losses as at 31 December 2019 against the Special and Statutory reserves held as at that date. Following the receipt of the regulatory consents in June 2020, the accumulated losses as at 31 December 2019 of AED 897,863 thousand have been fully set off against the Special reserve of AED 422,116 thousand and Statutory reserve of AED 475,747 thousand. This has resulted in the special reserve being zeroised and a remaining balance of AED 28,924 thousand in the Bank's statutory reserve.

5 CASH AND BALANCES WITH THE UAE CENTRAL BANK

	<i>Unaudited 31 March 2021 AED'000</i>	<i>Audited 31 December 2020 AED'000</i>
Cash on hand	63,174	64,398
Balances with UAE Central Bank:		
Overnight deposit facility	800,000	850,000
Reserve requirements	332,114	491,924
	1,195,288	1,406,322

The reserve requirements, which were previously kept with the UAE Central Bank in AED and USD in accordance with Circular No. 21/99, were computed as 14% of demand deposits plus 1% of time deposits. These reserve amounts were not available for use in the Bank's day to day operations and could not be withdrawn without the UAE Central Bank's approval. The level of reserve required used to be updated on a monthly basis in accordance with the UAE Central Bank directives.

On 6th April 2020 via Notice No. 1759/2020, the UAE Central Bank revised its computation of reserves to be 7% of demand deposits plus 1% of time deposits to be maintained in AED with reserves denominated in foreign currency to be converted into AED using the FX midpoint rate as published by the UAE Central Bank. Effective 28th October 2020 via Notice No. CBUAE/MMD/2020/4690, the UAE Central Bank implemented that this reserve would be updated on a fortnightly basis and also allowed licensed institutions to draw on the reserve balances held with the UAE Central Bank on any day upto 100% for daily settlement purposes or to deal with any swings on overnight money market rates, while ensuring that they meet the daily average requirements over the 14-day reserve maintenance period.

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months period ended 31 March 2021 (Unaudited)

5 CASH AND BALANCES WITH THE UAE CENTRAL BANK (continued)

The reserve requirement as at 31 March 2021 amounted to AED 281,649 thousand (31 December 2020: AED 285,721 thousand). In accordance with the revised regulations effective from October 2020, the end of day balance in the clearing account maintained with UAE Central Bank is swept to the Reserve account on a daily basis.

6 DUE FROM OTHER BANKS

	<i>Unaudited</i> 31 March <i>2021</i> AED'000	<i>Audited</i> 31 December <i>2020</i> AED'000
Demand deposits	270,528	296,525
Term deposits	300,000	-
	570,528	296,525

Due from other banks include AED 145,331,000 (31 December 2020: AED 127,356,000) placed with foreign banks outside the UAE. AED 164,539,000 (31 December 2020: AED 221,187,000) is held as margin for derivative transactions.

Grading of gross balances of due from other banks along with stages

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
High	313,747	-	-	313,747
Standard	256,781	-	-	256,781
As at 31 March 2021 (unaudited)	570,528	-	-	570,528
	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
High	238,080	-	-	238,080
Standard	58,445	-	-	58,445
As at 31 December 2020 (audited)	296,525	-	-	296,525

The Bank holds a stage 1 expected credit loss allowance of AED 82,700 (31 December 2020: AED 112,000) on its due from other banks.

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months period ended 31 March 2021 (Unaudited)

7 LOANS AND ADVANCES AND ISLAMIC FINANCING RECEIVABLES

	<i>Unaudited</i> <i>31 March</i> <i>2021</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2020</i> <i>AED'000</i>
The composition of the loans and advances portfolio is as follows:		
Overdrafts	1,130,095	1,192,258
Term loans (medium and short term)*	7,866,346	8,676,243
Loans against trust receipts	484,135	530,210
Bills discounted	170,235	152,875
Other cash advances	52,706	51,051
Bills drawn under letters of credit	46,914	66,546
Gross amount of loans and advances and Islamic financing receivables	9,750,431	10,669,183
Less: Provision for impairment on loans and advances and Islamic financing receivables	(1,249,892)	(1,655,544)
Net loans and advances and Islamic financing receivables	8,500,539	9,013,639

* Includes retail loans of AED 2,209,570,000 (2020: AED 2,372,456,000)

Islamic financing receivables amount to AED 567,534,000 (31 December 2020: AED 581,777,000) recognized through the Bank's Shari'a – compliant Islamic window.

At 31 March 2021, the gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance amounted to AED 1,187,978,000 (31 December 2020: AED 1,677,199,000).

Grading of gross balances of loans and advances along with stages

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
High	14,518	-	-	14,518
Standard	6,914,707	1,012,812	-	7,927,519
Watchlist	-	620,416	-	620,416
Default	-	-	1,187,978	1,187,978
Total gross carrying amount	6,929,225	1,633,228	1,187,978	9,750,431
Expected credit loss	(100,674)	(327,565)	(821,653)	(1,249,892)
As at 31 March 2021 (unaudited)	6,828,551	1,305,663	366,325	8,500,539
	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
High	14,094	-	-	14,094
Standard	7,453,964	1,009,701	-	8,463,665
Watchlist	-	514,225	-	514,225
Default	-	-	1,677,199	1,677,199
Total gross carrying amount	7,468,058	1,523,926	1,677,199	10,669,183
Expected credit loss	(87,398)	(294,841)	(1,273,305)	(1,655,544)
As at 31 December 2020 (audited)	7,380,660	1,229,085	403,894	9,013,639

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months period ended 31 March 2021 (Unaudited)

7 LOANS AND ADVANCES AND ISLAMIC FINANCING RECEIVABLES (continued)

Movement in the gross balances of loans and advances and Islamic financing receivables

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Gross carrying amount				
As at 31 December 2020	7,468,058	1,523,926	1,677,199	10,669,183
Net of new assets originated and assets repaid	(442,665)	100,938	(64,314)	(406,041)
Write-offs	-	-	(512,711)	(512,711)
Transferred from Stage 1	(111,215)	111,215	-	-
Transferred from Stage 2	-	(110,376)	110,376	-
Transferred from Stage 3	15,047	7,525	(22,572)	-
As at 31 March 2021	<u>6,929,225</u>	<u>1,633,228</u>	<u>1,187,978</u>	<u>9,750,431</u>

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Gross carrying amount				
As at 31 December 2019	9,513,998	2,032,789	1,483,820	13,030,607
Net of new assets originated and assets repaid	(1,667,863)	(323,992)	127,182	(1,864,673)
Write-offs	-	-	(496,751)	(496,751)
Transferred from Stage 1	(467,485)	467,485	-	-
Transferred from Stage 2	-	(653,632)	653,632	-
Transferred from Stage 3	89,408	1,276	(90,684)	-
As at 31 December 2020	<u>7,468,058</u>	<u>1,523,926</u>	<u>1,677,199</u>	<u>10,669,183</u>

Movement in provision for impairment of loans and advances:

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Balance as at 31 December 2020	87,398	294,841	1,273,305	1,655,544
<i>Changes due to provisions recognized in the opening balance that have:</i>				
Transferred to 12 month ECL	10,706	(10,706)	-	-
Transferred to lifetime ECL not credit impaired	(36,294)	36,294	-	-
Transferred to lifetime ECL credit-impaired	-	(11,415)	11,415	-
Transferred from lifetime ECL credit-impaired on commitments and contingent liabilities	-	-	2,962	2,962
Charge to income statement	38,863	18,553	24,742	82,158
Write-offs	-	-	(490,772)	(490,772)
As at 31 March 2021 (unaudited)	<u>100,673</u>	<u>327,567</u>	<u>821,652</u>	<u>1,249,892</u>

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months period ended 31 March 2021 (Unaudited)

7 LOANS AND ADVANCES AND ISLAMIC FINANCING RECEIVABLES (continued)

Movement in provision for impairment of loans and advances (continued):

	<i>Stage 1</i> <i>AED '000</i>	<i>Stage 2</i> <i>AED '000</i>	<i>Stage 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
Balance as at 1 January 2020	83,550	238,381	1,145,186	1,467,117
<i>Changes due to provisions recognized in the opening balance that have:</i>				
Transferred to 12 month ECL	1,676	(1,676)	-	-
Transferred to lifetime ECL not credit impaired	(49,656)	49,656	-	-
Transferred to lifetime ECL credit-impaired	-	(156,664)	156,664	-
Transferred to lifetime ECL credit-impaired on commitments and contingent liabilities	-	-	2,588	2,588
Charge to income statement	51,828	165,144	466,385	683,357
Write-offs	-	-	(497,518)	(497,518)
	<u>87,398</u>	<u>294,841</u>	<u>1,273,305</u>	<u>1,655,544</u>
As at 31 December 2020 (audited)	<u>87,398</u>	<u>294,841</u>	<u>1,273,305</u>	<u>1,655,544</u>

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months period ended 31 March 2021 (Unaudited)

8 INVESTMENTS AND ISLAMIC INSTRUMENTS

	<i>Unaudited</i> 31 March 2021			<i>Audited</i> 31 December 2020		
	<i>Quoted</i> <i>AED'000</i>	<i>Unquoted</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>	<i>Quoted</i> <i>AED'000</i>	<i>Unquoted</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Debt:						
<i>FVTPL</i>						
Local	-	-	-	-	-	-
Overseas	481	-	481	-	-	-
<i>FVOCI</i>						
Local	2,250,187	-	2,250,187	2,473,714	-	2,473,714
Overseas	960,544	-	960,544	807,377	-	807,377
<i>Amortised cost</i>						
Local	65,993	-	65,993	-	-	-
Overseas	21,326	-	21,326	-	-	-
Total debt securities	3,298,531	-	3,298,531	3,281,091	-	3,281,091
Equity:						
<i>FVOCI</i>						
Local	-	467	467	-	467	467
Overseas	117	76	193	92	76	168
Total equities	117	543	660	92	543	635
Total investments	3,298,648	543	3,299,191	3,281,183	543	3,281,726
Expected credit loss			(667)			-
Net investments			3,298,524			3,281,726

Included in the above are investment securities amounting to AED 323,921,000 (31 December 2020: AED 741,667,000) secured under repurchase agreement with the lenders. The Banks holds an ECL allowance of AED 257,000 (31 December 2020: AED 3,208,000) on these investment securities secured under repurchase agreements.

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months period ended 31 March 2021 (Unaudited)

8 INVESTMENTS AND ISLAMIC INSTRUMENTS (continued)

Grading of gross balances of investment securities (FVOCI and Amortised Cost) along with stages:

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
High	1,509,448	-	-	1,509,448
Standard	1,789,262	-	-	1,789,262
Total gross carrying amount	3,298,710	-	-	3,298,710
Expected credit loss	(24,681)	-	-	(24,681)
As at 31 March 2021 (unaudited)	3,274,029	-	-	3,274,029
	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
High	1,420,056	-	-	1,420,056
Standard	1,861,035	-	-	1,861,035
Total gross carrying amount	3,281,091	-	-	3,281,091
Expected credit loss	(19,758)	-	-	(19,758)
As at 31 December 2020 (audited)	3,261,333	-	-	3,261,333

Movement in the provision for impairment of investment securities (FVOCI and Amortised Cost):

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Balance as at 31 December 2020	19,758	-	-	19,758
Net release to income statement	4,923	-	-	4,923
As at 31 March 2021 (unaudited)	24,681	-	-	24,681
	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Balance as at 31 December 2019	21,956	-	-	21,956
Net release to income statement	(2,198)	-	-	(2,198)
As at 31 December 2020 (Audited)	19,758	-	-	19,758

United Arab Bank P.J.S.C.

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For the three months period ended 31 March 2021 (Unaudited)

9 DUE TO BANKS

	<i>Unaudited</i> 31 March 2021 <i>AED'000</i>	<i>Audited</i> 31 December 2020 <i>AED'000</i>
Demand deposits	13,466	27,732
Term deposits	1,359,440	1,205,738
	1,372,906	1,233,470

Demand deposits include AED Nil (31 December 2020: AED Nil) held as margin for derivative transactions.

Term deposits include borrowings through repurchase agreements of AED 291,900,000 (31 December 2020: AED 605,938,000).

10 CUSTOMER DEPOSITS AND ISLAMIC CUSTOMER DEPOSITS

	<i>Unaudited</i> 31 March 2021 <i>AED'000</i>	<i>Audited</i> 31 December 2020 <i>AED'000</i>
Term deposits	7,900,430	8,359,748
Current accounts	2,618,853	2,563,013
Call and savings accounts	319,557	324,074
	10,838,840	11,246,835

Customer's deposits include Islamic customer deposits amounting to AED 2,526,350,000 (31 December 2020: AED 3,390,329,000) undertaken through the Bank's Shari'a – compliant Islamic window.

11 MEDIUM TERM BORROWINGS

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

	<i>Unaudited</i> 31 March 2021 <i>AED'000</i>	<i>Audited</i> 31 December 2020 <i>AED'000</i>
Balance as at 1 January	-	1,487,363
Issued during the period / year	-	-
Repaid during the period / year	-	(1,487,363)
	-	-
Balance as at period / year end	-	-

In order to actively manage its balance sheet and optimize fund usage, the Bank had early repaid all its outstanding medium term borrowings in June 2020.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months period ended 31 March 2021 (Unaudited)

12 NET IMPAIRMENT LOSSES

Provision for losses recognized in the condensed statement of income is as follows:

	<i>Three months period ended</i>	
	<i>31 March (Unaudited)</i>	
	<i>2021</i>	<i>2020</i>
	<i>AED'000</i>	<i>AED'000</i>
Net impairment of financial assets on:		
Loans and advances and Islamic financing receivables	85,120	165,943
Contingent liabilities	(23,438)	16,294
Due from other banks	(28)	(14)
Investments and Islamic instruments	4,923	(3,770)
Principal waivers on loans and advances and Islamic financing receivables	(2)	(2)
Recovery on bad debts written-off	(4,098)	(3,472)
Net impairment of non-financial assets	-	7,000
	<u>62,477</u>	<u>181,979</u>
Net impairment losses	<u>62,477</u>	<u>181,979</u>

13 COMMITMENTS AND CONTINGENT LIABILITIES

Contingent liabilities represent credit related commitments under letters of credit and guarantees that are designed to meet the requirements of the Bank's customers towards third parties. Commitments represent credit facilities that are undrawn as on the date of the interim statement of financial position. The Bank has the following gross credit related commitments:

	<i>Unaudited</i>	<i>Audited</i>
	<i>31 March</i>	<i>31 December</i>
	<i>2021</i>	<i>2020</i>
	<i>AED'000</i>	<i>AED'000</i>
<i>Contingent liabilities</i>		
Letters of credit	263,333	215,578
Guarantees	2,440,964	2,527,627
	<u>2,704,297</u>	<u>2,743,205</u>
<i>Commitments</i>		
Undrawn loan commitments	<u>2,973,506</u>	<u>3,098,643</u>

The undrawn loan commitments of the Bank are all revocable and are not considered for ECL computation.

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months period ended 31 March 2021 (Unaudited)

13 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Grading of gross balances of contingent liabilities along with stages

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
High	5,953	-	-	5,953
Standard	1,983,746	464,624	-	2,448,370
Watchlist	-	171,046	-	171,046
Default	-	-	78,928	78,928
Total gross carrying amount	1,989,699	635,670	78,928	2,704,297
Expected credit loss	(22,317)	(32,171)	(34,436)	(88,924)
As at 31 March 2021 (unaudited)	1,967,382	603,499	44,492	2,615,373
	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
High	16,586	-	-	16,586
Standard	1,843,736	662,643	-	2,506,379
Watchlist	-	128,978	-	128,978
Default	-	-	91,262	91,262
Total gross carrying amount	1,860,322	791,621	91,262	2,743,205
Expected credit loss	(18,255)	(56,710)	(37,397)	(112,362)
As at 31 December 2020 (audited)	1,842,067	734,911	53,865	2,630,843

Movement in the gross balance of contingent liabilities

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Gross carrying amount				
As at 31 December 2020	1,860,322	791,621	91,262	2,743,205
<i>Changes due to financial assets recognized in the opening balance that have:</i>				
Transferred from Stage 1	(107,797)	107,797	-	-
Transferred from Stage 2	336,395	(336,395)	-	-
Transferred from Stage 3	-	(8)	8	-
Originated / (expired) during the year	(99,221)	72,655	(12,342)	(38,908)
As at 31 March 2021	1,989,699	635,670	78,928	2,704,297
	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Gross carrying amount				
As at 31 December 2019	2,415,078	1,029,493	68,116	3,512,687
<i>Changes due to financial assets recognized in the opening balance that have:</i>				
Transferred from Stage 1	(93,053)	90,022	3,031	-
Transferred from Stage 2	3,649	(28,077)	24,428	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the year	(465,352)	(299,817)	(4,313)	(769,482)
As at 31 December 2020	1,860,322	791,621	91,262	2,743,205

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months period ended 31 March 2021 (Unaudited)

13 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Movement in the provision for impairment of commitments and contingent liabilities

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Balance as at 31 December 2020	18,255	56,710	37,397	112,362
Changes due to provisions recognized in the opening balance that have:				
Transferred to 12 month ECL	5,609	(5,609)	-	-
Transferred to lifetime ECL not credit impaired	(1,883)	1,883	-	-
Transferred to lifetime ECL credit-impaired	-	-	-	-
Transfer from / (to) ECL credit-impaired on loans	-	(1)	(2,961)	(2,962)
Charge to income statement	336	(20,812)	-	(20,476)
As at 31 March 2021 (unaudited)	22,317	32,171	34,436	88,924
	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Balance as at 1 January 2020	14,000	45,462	31,833	91,295
Changes due to provisions recognized in the opening balance that have:				
Transferred to 12 month ECL	587	(587)	-	-
Transferred to lifetime ECL not credit impaired	(12,254)	12,254	-	-
Transferred from ECL credit impaired on loans	-	(2,961)	2,961	-
Charge to income statement	-	(5,191)	2,603	(2,588)
Changes in estimate	15,922	7,733	-	23,655
As at 31 December 2020 (audited)	18,255	56,710	37,397	112,362

14 DIVIDENDS

At the virtual Annual General Meeting of the shareholders held on 13 April 2021, no cash or scrip dividend was proposed or subsequently approved for the year ended 31 December 2020 (2019: Nil).

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months period ended 31 March 2021 (Unaudited)

15 SEGMENTAL INFORMATION

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

- Wholesale banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers. This segment also includes Financial Markets which is principally involved in providing money market, trading and treasury services, as well as the management of the Bank's funding operations
- 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

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

Segmental information for the three months period ended 31 March 2021 is as follows:

	<i>Wholesale banking AED'000</i>	<i>Retail banking AED'000</i>	<i>Total AED'000</i>
Net interest income and income from Islamic products net of distribution to depositors	44,580	19,554	64,134
Other operating income	61,752	6,433	68,185
Operating expenses	(44,302)	(15,340)	(59,642)
Net impairment losses	(42,497)	(19,980)	(62,477)
Profit for the period	<u>19,533</u>	<u>(9,333)</u>	<u>10,200</u>
Capital expenditure - Property and equipment	<u>2,783</u>	<u>460</u>	<u>3,243</u>
At 31 March 2021			
Segment assets	<u>12,375,240</u>	<u>2,043,745</u>	<u>14,418,985</u>
Segment liabilities	<u>10,690,927</u>	<u>2,293,061</u>	<u>12,983,988</u>

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months period ended 31 March 2021 (Unaudited)

15 SEGMENTAL INFORMATION (continued)

Segmental information for the three months period ended 31 March 2020 was as follows:

	<i>Corporate banking AED'000</i>	<i>Retail banking AED'000</i>	<i>Total AED'000</i>
Net interest income and income from Islamic products net of distribution to depositors	64,483	23,169	87,652
Other operating income	33,451	4,511	37,962
Operating expenses	(45,337)	(18,241)	(63,578)
Net impairment losses	(152,303)	(29,676)	(181,979)
Profit / (loss) for the period	<u>(99,706)</u>	<u>(20,237)</u>	<u>(119,943)</u>
Capital expenditure - Property and equipment	<u>4,141</u>	<u>736</u>	<u>4,877</u>
At 31 March 2020			
Segment assets	<u>14,967,227</u>	<u>2,658,715</u>	<u>17,625,942</u>
Segment liabilities	<u>13,499,543</u>	<u>2,490,387</u>	<u>15,989,930</u>

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

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months period ended 31 March 2021 (Unaudited)

16 RELATED PARTY TRANSACTIONS

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

The significant balances outstanding are as follows:

	<i>Unaudited</i> <i>31 March</i> <i>2021</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2020</i> <i>AED'000</i>
<i><u>Shareholders:</u></i>		
Due from banks	53	66
Due to banks	2,924	2,669
Medium term borrowings	-	-
Commitments and contingencies	4,000	5,174
<i><u>Directors:</u></i>		
Loans and advances	8,767	6,511
Customer deposits	5,578	6,296
Commitments and contingencies	45	45
<i><u>Other related entities of shareholders and directors:</u></i>		
Loans and advances	172,366	180,167
Investments	63,506	64,131
Due from banks	11	29
Due to other banks	448	448
Customer deposits	249,978	243,954
Commitments and contingencies	109,914	97,881

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For the three months period ended 31 March 2021 (Unaudited)

16 RELATED PARTY TRANSACTIONS (continued)

	<i>Unaudited</i> 31 March 2021 <i>AED'000</i>	<i>Audited</i> 31 December 2020 <i>AED'000</i>
<i>Key management personnel of the Bank:</i>		
Loans and advances	4,063	4,136
Customers' deposits	2,795	1,445
<i>Shareholders, directors, their related entities and key management personnel:</i>		
Accrued interest income	245	1,595
Accrued interest expense	4,017	4,204

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

	<i>Unaudited three months</i> period ended 31 March	
	2021 <i>AED'000</i>	2020 <i>AED'000</i>
<i>Shareholders, directors and their related entities</i>		
Interest income	3,304	9,612
Interest expense	362	1,962

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months period ended 31 March 2021 (Unaudited)

16 RELATED PARTY TRANSACTIONS (continued)

Key management personnel

	<i>Unaudited three months period ended 31 March</i>	
	<i>2021</i>	<i>2020</i>
Number of key management personnel	14	12
	<i>AED'000</i>	<i>AED'000</i>
Salaries and other short term benefits	5,264	5,302
Employees' end of service benefits	591	2,038
Total compensation to key management personnel	5,855	7,340
Interest income	29	27
Interest expense	-	1
	<i>AED'000</i>	<i>AED'000</i>
	<i>2021</i>	<i>2020</i>
	<i>AED'000</i>	<i>AED'000</i>
Expected credit loss – (charge) to / release from income statement	(1,228)	(2,130)

Terms and conditions of transactions with related parties

The Bank has leased office space in various premises owned by a related party. The property leases and associated expenses for the three months period ended 31 March 2021 amounted to AED 481,000 (31 March 2020: AED 469,000). The property rentals are negotiated each year at market rates.

The Bank has granted relief vide delayed payments amounting to AED 2,737,000 (31 December 2020: AED 23,737,000) on total outstanding of AED 82,119,000 (31 December 2020: AED 140,002,000) due from related parties during the period under the economic incentive programme of the UAE Central Bank (see note 19).

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months period ended 31 March 2021 (Unaudited)

16 RELATED PARTY TRANSACTIONS (continued)

Movement in the gross balances of all related party loans and advances

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Gross carrying amount				
As at 31 December 2020	167,743	23,071	-	190,814
Net of new assets originated and assets repaid	2,263	(7,881)	-	(5,618)
Write-offs	-	-	-	-
Transferred from Stage 1	-	-	-	-
Transferred from Stage 2	-	-	-	-
Transferred from Stage 3	-	-	-	-
As at 31 March 2021	170,006	15,190		185,196

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Gross carrying amount				
As at 31 December 2019	344,934	249,368	-	594,302
Restatement of opening balance	10,497	-	-	10,497
Net of new assets originated and assets repaid	(186,984)	(7,986)	-	(194,970)
Reclassified amounts which are no longer related parties	-	(219,015)	-	(219,015)
Write-offs	-	-	-	-
Transferred from Stage 1	(704)	704	-	-
Transferred from Stage 2	-	-	-	-
Transferred from Stage 3	-	-	-	-
As at 31 December 2020	167,743	23,071	-	190,814

Movement in provision for impairment of related party loans and advances

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Balance as at 31 December 2020	2,118	1,854	-	3,972
Charge to income statement	128	1,100	-	1,228
As at 31 March 2021	2,246	2,954	-	5,200

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Balance as at 31 December 2019	5,185	4,180	-	9,365
<i>Changes due to provisions recognized in the opening balance that have:</i>				
Transferred to 12 month ECL	(97)	97	-	-
Charge to income statement	(2,970)	(1,436)	-	(4,406)
Reclassified amounts which are no longer related parties	-	(987)	-	(987)
As at 31 December 2020	2,118	1,854	-	3,972

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months period ended 31 March 2021 (Unaudited)

17 FAIR VALUES OF FINANCIAL INSTRUMENTS

The Bank 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 have a significant effect on the recorded fair value that 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 recorded at fair value

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

	<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
31 March 2021				
Investments	3,211,329	-	543	3,211,872
Derivative assets	-	7,304	-	7,304
	<u>3,211,329</u>	<u>7,304</u>	<u>543</u>	<u>3,219,176</u>
Derivative liabilities	-	160,785	-	160,785
31 December 2020				
Investments	3,281,183	-	543	3,281,726
Derivative assets	-	8,055	-	8,055
	<u>3,281,183</u>	<u>8,055</u>	<u>543</u>	<u>3,289,781</u>
Derivative liabilities	-	230,587	-	230,587

Financial instruments not recorded at fair value

The fair values of financial instruments not recorded at fair value includes cash and balances with the UAE Central Bank, due from other banks, loans and advances, investments held at amortised cost, other assets (excluding derivative assets), due to banks, customer deposits and other liabilities (excluding derivative liabilities).

Financial instruments carried at amortised cost

The fair value of the quoted debt instruments at amortised cost as at 31 March 2021 amounted to AED 87,172,000 (31 December 2020: AED Nil). The fair value determination of the quoted debt instruments will fall under level 1 category wherein fair value is determined based on inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

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For the three months period ended 31 March 2021 (Unaudited)

18 DERIVATIVES

Derivatives held for risk management

The tables below show the fair values of derivative financial instruments held for trading purposes, recorded as assets and liabilities, together with their notional amounts.

31 March 2021	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amounts by term to maturity			
				Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000	Over 5 years AED'000
Forward contracts	3,477	(297)	2,552,340	1,463,021	1,089,319	-	-
Interest rate swaps	3,826	(3,826)	236,842	-	-	236,842	-
Currency options	1	(1)	5,605	5,605	-	-	-
	<u>7,304</u>	<u>(4,124)</u>	<u>2,794,787</u>	<u>1,468,626</u>	<u>1,089,319</u>	<u>236,842</u>	<u>-</u>

31 December 2020	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amounts by term to maturity			
				Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000	Over 5 years AED'000
Forward contracts	3,687	(33)	2,299,687	1,279,889	1,019,798	-	-
Interest rate swaps	4,368	(4,368)	251,651	-	-	251,651	-
	<u>8,055</u>	<u>(4,401)</u>	<u>2,551,338</u>	<u>1,279,889</u>	<u>1,019,798</u>	<u>251,651</u>	<u>-</u>

As at 31 March 2021, the Bank held the following interest rate swaps as hedging instruments in fair value hedges of interest rate risk, along with amounts relating to hedged items:

31 March 2021	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amounts by term to maturity			
				Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000	Over 5 years AED'000
Hedge of investments	-	(156,660)	2,051,793	-	110,910	1,038,801	902,083
31 December 2020							
Hedge of investments	-	(226,186)	2,114,107	-	55,822	1,099,375	958,910

The carrying amount of the hedged items are included in the line item 'Investments' on the statement of financial position with the notional amount totaling to AED 2,206,576,000 (31 December 2020: AED 2,311,164,000). These hedged items comprise of debt instruments which are held as FVOCI.

The Bank has recognised the following gains / (losses) relating to hedge ineffectiveness calculated as follows:

	31 March 2021		31 March 2020	
	Change in value AED'000	Effectiveness recognised in profit and loss AED'000	Change in value AED'000	Effectiveness recognised in profit and loss AED'000
On hedging instruments	69,425	5,124	(132,481)	(8,455)
On hedged items	(64,301)		124,026	

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For the three months period ended 31 March 2021 (Unaudited)

19 RISK MANAGEMENT

Current Economic Situation

The economic fallout of COVID-19 crisis is expected to be significant and is rapidly evolving at the present time. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate its impact. The Central Bank of the UAE (“CBUAE”) has also announced (a) TESS (Targeted Economic Support Scheme) and (b) Capital and Liquidity stimulus packages. The Bank has also participated in the scheme of CBUAE.

Impact of COVID-19 on ECL

IFRS 9 framework requires estimation of ECL based on current and forecast economic conditions. In order to assess ECL under forecast economic conditions, the Bank utilizes a range of economic scenarios of varying severity, and with appropriate weightings, to ensure that ECL estimates are representative of a range of possible economic outcomes. The Bank has robust governance in place to ensure the appropriateness of the IFRS 9 framework and resultant ECL estimates at all times.

The Bank has reviewed the potential impact of COVID-19 outbreak on the inputs and assumptions for IFRS 9 ECL measurement in light of available information. Overall, the COVID-19 situation remains fluid and is rapidly evolving at this point, which makes it challenging to reliably reflect its impact in our ECL estimates.

As per the disclosure requirements of the Central Bank of UAE in the context of Covid-19, the Bank has divided its customers benefitting from payment deferrals into two groups (Group 1 and Group 2). Customers not expected to face substantial changes in their creditworthiness, beyond liquidity issues caused by the Covid-19 crisis, have been categorized in Group 1. Customers expected to be significantly impacted by Covid-19 in the long term and that are expected to face substantial deterioration in their creditworthiness have been categorized in Group 2.

Analysis of customers benefitting from payment deferrals

The table below contains the outstanding balances and related ECL of customers benefitting from payment deferrals:

	<i>Wholesale banking AED'000</i>	<i>Retail banking AED'000</i>	<i>Total AED'000</i>
31 March 2021			
Group 1			
Loans and advances	558,932	564,635	1,123,567
Less: Expected credit losses	(21,694)	(14,997)	(36,691)
	<u>537,238</u>	<u>549,638</u>	<u>1,086,876</u>
Group 2			
Loans and advances	308,899	77,944	386,843
Less: Expected credit losses	(79,865)	(29,426)	(109,291)
	<u>229,034</u>	<u>48,518</u>	<u>277,552</u>
Total			
Loans and advances	867,831	642,579	1,510,410
Less: Expected credit losses	(101,559)	(44,423)	(145,982)
	<u>766,272</u>	<u>598,156</u>	<u>1,364,428</u>
Number of customers / accounts	<u>18</u>	<u>1,381</u>	<u>1,399</u>

As at 31 March 2021, the Zero Cost Funding (ZCF) under the CBUAE TESS program availed by the Bank amounted to AED 291,900,000. The total installment deferred on wholesale and retail banking customers amounts to AED 449,110,000 which is equivalent to the full amount of the approved limit of ZCF for the Bank by CBUAE under the TESS program, of which AED 105,306,000 is the deferred amount as at 31st March 2021.

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For the three months period ended 31 March 2021 (Unaudited)

19 RISK MANAGEMENT (continued)

Impact of COVID-19 on ECL (continued)

Movement in the gross balances of wholesale and retail banking customers benefitting from payment deferrals:

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Loans and advances				
As at 31 December 2020	1,721,582	912,234	17,615	2,651,431
Net of new assets originated and assets repaid / transferred	(607,176)	(533,774)	(71)	(1,141,021)
Transferred from Stage 1	(90,675)	89,803	872	-
Transferred from Stage 2	26,182	(61,670)	35,488	-
Transferred from Stage 3	1,237	6,355	(7,592)	-
As at 31 March 2021	1,051,150	412,948	46,312	1,510,410

Movement in the provision of wholesale and retail banking customers benefitting from payment deferrals:

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
As at 31 December 2020	25,707	206,543	4,842	237,092
Net of new assets originated and assets repaid / transferred	(1,632)	(91,950)	2,472	(91,110)
Transferred from Stage 1	(549)	544	5	-
Transferred from Stage 2	470	(13,721)	13,251	-
Transferred from Stage 3	554	463	(1,017)	-
As at 31 March 2021	24,550	101,879	19,553	145,982

20 CAPITAL ADEQUACY RATIO

	<i>Unaudited</i> <i>31 March</i> <i>2021</i>	<i>Audited</i> <i>31 December</i> <i>2020</i>
Common equity tier 1 ratio	13.0%	12.5%
Tier 1 capital ratio	13.0%	12.5%
Capital adequacy ratio	14.2%	13.7%

As part of the capital stimulus package provided by the CBUAE under the TESS program, Banks are allowed to tap into the capital conservation buffer of 2.5% up to a maximum of 60% effective from 15 March 2020 until 31 December 2021. Upon full consumption of this capital relief, the minimum capital adequacy ratio requirement reduces to 11.5% (as opposed to 13.0% previously applicable) for reporting periods falling within the specified duration. The Bank continues to be in compliance with this revised minimum capital threshold requirement as per CBUAE guidelines for the period ended 31 March 2021.