United Arab Bank P.J.S.C.

CONDENSED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2018

United Arab Bank P.J.S.C.

CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2018

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Review report on the condensed interim financial information to the board of directors of United Arab Bank P.J.S.C.

Introduction

We have reviewed the accompanying condensed interim statement of financial position of United Arab Bank P.J.S.C as at 30 June 2018, and the related condensed interim statements of income and comprehensive income for the three-month and six-month periods then ended and the condensed statements of cash flows and changes in equity for the six-month period then ended and significant changes in accounting policies and other explanatory information. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

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

Conclusion

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

PricewaterhouseCoopers
19 July 2018

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

United Arab Bank P.J.S.C.
INTERIM STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Note	***Unaudited 30 June 2018 AED'000***	*Audited 31 December 2017 AED'000*
Assets			
Cash and balances with the UAE Central Bank	5	**1,719,917**	2,016,628
Due from other banks	6	**383,964**	413,528
Loans and advances	7	**12,756,928**	13,128,347
Investments	8	**3,797,775**	3,413,436
Property, equipment and capital work-in-progress		**582,287**	589,960
Other assets		**939,162**	1,176,801
Total assets		**20,180,033**	20,738,700
Liabilities and shareholders' equity			
Liabilities			
Due to banks	9	**2,056,573**	1,543,890
Customers' deposits	10	**13,881,047**	15,049,917
Medium term borrowings	11	**844,629**	844,629
Other liabilities		**865,370**	1,135,634
Total liabilities		**17,647,619**	18,574,070
Shareholders' equity			
Share capital	4	**2,062,550**	1,375,033
Special reserve		**414,393**	414,393
Statutory reserve		**496,948**	496,948
General reserve		**9,311**	9,311
Revaluation reserve		**616**	632
Retained earnings		**(405,380)**	(153,940)
Cumulative changes in fair value		**(46,024)**	22,253
Net shareholders' equity		**2,532,414**	2,164,630
Total liabilities and shareholders' equity		**20,180,033**	20,738,700

This condensed interim financial information was approved by the Board of Directors on 19 July 2018 and signed on its behalf by:

Mohamed Bin Abdulla Al Nuaimi
Acting Chief Executive Officer

United Arab Bank P.J.S.C.
INTERIM STATEMENT OF INCOME (unaudited)
For the six month period ended 30 June 2018

		Three month period ended 30 June		*Six month period ended 30 June*	
	Note	***2018 AED'000***	*2017 AED'000*	***2018 AED'000***	*2017 AED'000*
Interest income		**225,095**	212,426	**452,005**	417,444
Interest expense		**(100,546)**	(86,366)	**(199,097)**	(172,078)
Net interest income		**124,549**	126,060	**252,908**	245,366
Net fees and commission income		**22,322**	31,793	**41,436**	61,660
Foreign exchange income		**7,052**	8,420	**15,478**	19,243
Other operating income		**13,353**	8,596	**31,408**	19,351
Total operating income		**167,276**	174,869	**341,230**	345,620
Employee benefit expenses		**(57,061)**	(57,274)	**(111,980)**	(112,133)
Other operating expenses		**(20,456)**	(21,504)	**(41,016)**	(44,369)
Depreciation		**(6,840)**	(8,785)	**(15,071)**	(17,693)
Total operating expenses		**(84,357)**	(87,563)	**(168,067)**	(174,195)
Profit before impairment loss		**82,919**	87,306	**173,163**	171,425
Net impairment loss	13	**(38,323)**	(59,989)	**(92,622)**	(116,277)
Net profit for the period		**44,596**	27,317	**80,541**	55,148
Earnings per share (basic and diluted in AED)	4	**0.02**	0.02	**0.04**	0.04

United Arab Bank P.J.S.C.
INTERIM STATEMENT OF COMPREHENSIVE INCOME (unaudited)
For the six month period ended 30 June 2018

	Three month period ended 30 June		*Six month period ended 30 June*	
	2018	*2017*	***2018***	*2017*
	AED'000	*AED'000*	***AED'000***	*AED'000*
Net profit for the period	**44,596**	27,317	**80,541**	55,148
Other comprehensive income:				
Items that are or may be reclassified subsequently to the consolidated statement of income				
Fair value through other comprehensive income (FVOCI):				
Net changes in fair value of FVOCI investments	**(42,709)**		**(114,373)**	-
FVOCI – reclassified to statement of income	**(3,876)**		**30,184**	-
Available for sale investments:				
Net changes in fair value of available for sale investments	-	10,145	-	47,484
Available for sale investments – reclassified to consolidated statement of income	-	(15,387)	-	(7,177)
	(46,585)	(5,242)	**(84,189)**	40,307
Total comprehensive (loss) / profit for the period	**(1,989)**	22,075	**(3,648)**	95,455

The notes on pages 8 to 30 form an integral part of the condensed interim financial information.

United Arab Bank P.J.S.C.
INTERIM STATEMENT OF CASH FLOWS (unaudited)
For the six month period ended 30 June 2018

	Six month period ended 30 June	
	2018	*2017*
	AED'000	*AED'000*
Operating activities		
Net profit for the period	**80,541**	55,148
Adjustments for:		
Depreciation	**15,071**	17,693
Loss on write off of property and equipment	**2,546**	5,000
Gain from insurance proceeds	**-**	(5,201)
Net impairment losses	**92,622**	116,277
Amortisation of premium paid on investments	**17,562**	10,284
Net fair value (gain) / loss on disposal of investments	**(474)**	5,114
Unrealised loss / (gain) on investments	**206**	(1,341)
Operating profit before working capital changes	**208,074**	202,974
Changes in operating assets and liabilities:		
Loans and advances	**28,868**	(378,611)
Balances with the UAE Central bank maturing after three months	**(158,314)**	137,286
Due from other banks maturing after three months	**-**	(37,698)
Cash margin held by counterparty banks against borrowings and derivative transactions	**18,104**	(5,710)
Other assets	**237,639**	(155,829)
Due to banks maturing after three months	**460,488**	669,608
Customers' deposits	**(1,178,808)**	(1,657,228)
Other liabilities	**(297,398)**	305,124
Net cash used in operating activities	**(681,347)**	(920,084)
Investing activities		
Purchase of property, equipment and capital work-in-progress	**(9,944)**	(26,966)
Proceeds on sale of property and equipment	**-**	1,070
Proceeds from insurance claims	**-**	5,000
Proceeds from closure of subsidiary	**10,238**	-
Purchase of investments	**(1,442,084)**	(1,311,251)
Proceeds from redemption / sale of investments	**918,818**	1,233,758
Net cash used in investing activities	**(522,972)**	(98,389)
Financing activities		
Increase in ordinary share capital on rights issue	**687,517**	-
Rights issue costs	**(1,878)**	-
Net cash used in financing activities	**685,639**	-
Net change in cash and cash equivalents	**(518,680)**	(1,018,473)
Cash and cash equivalents at 1 January	**1,036,067**	1,631,477
Cash and cash equivalents at 30 June	**517,387**	613,004

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

Cash and balances with the UAE Central Bank	**750,261**	961,340
Due from other banks	**380,842**	366,698
Due to banks	**(613,716)**	(715,034)
	517,387	613,004

United Arab Bank P.J.S.C.
INTERIM STATEMENT OF CHANGES IN EQUITY (unaudited)
For the six month period ended 30 June 2018

	Share capital AED'000	*Special reserve AED'000*	*Statutory reserve AED'000*	*General reserve AED'000*	*Revaluation reserve AED'000*	*Retained earnings AED'000*	*Cumulative changes in fair value AED'000*	*Total AED'000*
At 1 January 2017	1,375,033	412,659	495,214	9,311	673	(167,856)	(38,317)	2,086,717
Profit for the period	-	-	-	-	-	55,148	-	55,148
Other comprehensive income for the period	-	-	-	-	-	-	40,307	40,307
Total comprehensive income for the period	-	-	-	-	-	55,148	40,307	95,455
Depreciation transfer for land and buildings	-	-	-	-	(22)	22	-	-
At 30 June 2017	1,375,033	412,659	495,214	9,311	651	(112,686)	1,990	2,182,172
At 1 January 2018	1,375,033	414,393	496,948	9,311	632	(153,940)	22,253	2,164,630
Impact of adopting IFRS 9 at 1 January 2018 (Note 3)	-	-	-	-	-	(330,119)	15,912	(314,207)
Restated balance at 1 January 2018	1,375,033	414,393	496,948	9,311	632	(484,059)	38,165	1,850,423
Profit for the period	-	-	-	-	-	80,541	-	80,541
Other comprehensive loss for the period	-	-	-	-	-	-	(84,189)	(84,189)
Total comprehensive loss for the period	-	-	-	-	-	80,541	(84,189)	(3,648)
Share capital rights issue (Note 4)	687,517	-	-	-	-	-	-	687,517
Rights issue cost	-	-	-	-	-	(1,878)	-	(1,878)
Depreciation transfer for land and buildings	-	-	-	-	(16)	16	-	-
At 30 June 2018	**2,062,550**	**414,393**	**496,948**	**9,311**	**616**	**(405,380)**	**(46,024)**	**2,532,414**

The notes on pages 8 to 30 form an integral part of the condensed interim financial information.

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.

The condensed interim financial information for the six month period ended 30 June 2018 comprise the results of the Bank on a standalone basis. The former subsidiary company, Al Sadarah Investment Company was wound up in January 2018. There were no operations in this subsidiary during the period and no balances as at 30 June 2018. The comparative financial information continues to be on a consolidated basis.

2 BASIS OF PREPARATION

The condensed interim financial information of the Bank are prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34").

The condensed interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's audited financial statements as at 31 December 2017.

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 and evaluated the provisions of the Companies Law and has ensured its compliance.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the condensed interim financial information are consistent with those used in the preparation of the Bank's audited financial statements for the year ended 31 December 2017 except for the policies in relation to adoption of the new International Financial Reporting Standards (IFRSs) which became effective as of 1 January 2018.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies on account of adoption of IFRS 9 – 'Financial Instruments'

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. The Bank has not early adopted any of the elements of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition have been recognised in the opening retained earnings of the current period.

Consequently, for note disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures reflect those disclosures made in the prior period.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation of certain investments in equity instruments not held for trading at fair value through other comprehensive income (FVOCI)

As permitted by IFRS 9, the Bank elected to continue to apply the hedge accounting requirements under IAS 39.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarized below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets at initial recognition:

- amortised cost,
- fair value through other comprehensive income (FVOCI), and
- fair value through profit or loss (FVTPL).

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies on account of adoption of IFRS 9 – 'Financial Instruments' (continued)

Classification of financial assets and financial liabilities (continued)

The classification is dependent on the Bank's business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018.

Classification and measurement of financial assets and financial liabilities on the date of initial application of IFRS 9

As at 1 January 2018	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 *AED'000*	New carrying amount under IFRS 9 *AED'000*
Balances with UAE Central Bank	Loans and receivables	Amortised cost	2,016,628	2,016,628
Due from banks	Loans and receivables	Amortised cost	413,528	413,528
Loans and advances	Loans and receivables	Amortised cost	13,128,347	12,878,544
Investments	Available-for-sale	FVOCI	3,198,450	3,198,450
Investments	Held-to-maturity	Amortised cost	18,489	18,252
Investments	Held-for-trading	FVTPL	196,497	196,497
Other assets	Loans and receivables	Amortised cost	1,066,040	1,066,040
Derivatives	FVTPL	FVTPL	110,761	110,761
Total financial assets			**20,148,740**	**19,898,700**
Due to banks	Amortised cost	Amortised cost	1,543,890	1,543,890
Customer deposits	Amortised cost	Amortised cost	15,049,917	15,049,917
Medium term borrowings	Amortised cost	Amortised cost	844,629	844,629
Other liabilities	Amortised cost	Amortised cost	1,046,686	1,110,853
Derivatives	FVTPL	FVTPL	88,948	88,948
Total financial liabilities			**18,574,070**	**18,638,237**

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies on account of adoption of IFRS 9 – 'Financial Instruments' (continued)

The difference in the carrying amounts noted above are only on account of re-measurement of impairment losses on loans and advances, investments classified as FVOCI, letters of credit and financial guarantees. There is no impact due to reclassification.

There were no changes to the classification and measurement of financial liabilities that would have been required in accordance with IFRS 9 at 1 January 2018.

Further details of the specific IFRS 9 accounting policies applied in the current period are described in more detail below.

Financial instruments

Classification

Financial assets are measured at amortised cost if both of the following conditions are met and are not designated as FVTPL:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangements, the related financial asset is classified and measured at fair value through profit or loss.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies on account of adoption of IFRS 9 – 'Financial Instruments' (continued)

Financial instruments (continued)

Classification (continued)

Investment in equity instruments that are not held for trading are measured at FVOCI.

A debt instrument is classified as FVTPL if it has been acquired principally for the purpose of selling it in the near term.

All other financial assets are classified as measured at FVTPL.

Gains and losses on subsequent measurement

Debt investments
Gains and losses arising from changes in the fair value of FVOCI 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 statement of income.

Equity investments
Gains and losses arising from changes in the fair value on equity investments are recognized in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as other income when the right to receive payments is established.

Impairment of financial assets

Following the adoption of IFRS 9, the Banks accounting policy for impairment requirements are based on an expected credit loss (ECL) model, replacing the incurred loss methodology model under IAS 39.

The Bank assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from financial guarantee contracts. The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies on account of adoption of IFRS 9 – 'Financial Instruments' (continued)

Financial instruments (continued)

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

- financial assets measured at amortised cost and FVOCI: as a deduction from the gross carrying amount of the assets and adjustments to OCI respectively;
- loan commitments and financial guarantee contracts: as a provision in other liabilities

Other standards, amendments and interpretations that are effective for the Bank's accounting period beginning on 1 January 2018

IFRS No.	Title	Effective for annual periods beginning on or after
IFRS 15	Revenue from contracts with customers	1 January 2018

There is no material impact of the above new standard on the condensed interim financial information of the Bank.

There are no other IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning on 1 January 2018 that have had a material impact on the Bank's condensed interim financial information.

Standards, amendments and interpretations issued but not yet effective for the Bank's accounting period beginning on 1 January 2018 and not early adopted

IFRS No.	Title	Effective for annual periods beginning on or after
IFRS 16	Leases	1 January 2019

The Bank has plans in place for adhering to the above new standard issued but not yet effective for the Bank's financial year beginning on 1 January 2018 and is currently assessing its impact.

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 Bank's financial year beginning on 1 January 2018 that would be expected to have a material impact on the condensed interim financial information of the Bank.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Key accounting estimates and judgments

The preparation of condensed interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from the estimates.

In preparing these condensed interim financial information, significant judgments made by the management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the Bank's audited financial statements as at and for the year ended 31 December 2017, except for the new estimates and judgments applied on adoption of IFRS 9 as set out below:

Classification of financial assets
Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Impairment of financial assets
Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Importance of staging criteria
Staging is an important input in determining the IFRS 9 ECL, as it dictates loans which would be classified as stage 1 (attracting 12 months ECL) and in stage 2 (attracting lifetime ECL). Staging under IFRS 9 is based on the assessment of relative movement in the credit quality of the loans from the time of initial recognition. Loans classified in stage 3 have objective evidence of impairment and in respect of which specific provisions have been established.

Measurement of ECL
The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the 12 months and expected life of the financial asset discounted at its original effective interest rate.

The key inputs into the measurement of ECL are the term structure of the following variables:
- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models, other historical data and forward looking information.

Financial risk management

The Bank's financial risk management objectives and policies are consistent with those disclosed in the audited financial statements as at and for the year ended 31 December 2017, except for changes due to implementation of IFRS 9 as explained in Note 13.

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:

	Unaudited six month period ended 30 June	
	2018	*2017*
	AED	*AED*
Net profit for the period	**80,541,000**	55,148,000
Ordinary shares of AED 1 each at the beginning of the year	**1,375,033,766**	1,375,033,766
Effect of ordinary shares rights issue of 1 for every 2 held of AED 1 each issued during the period	**687,516,883**	-
Ordinary shares of AED 1 each at the end of the period	**2,062,550,649**	1,375,033,766
Weighted average number of shares of AED 1 each outstanding for the period	**1,833,378,355**	1,375,033,766
Basic earnings per share	**AED 0.04**	AED 0.04

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. Subsequently in March 2018, the rights issue was fully subscribed and resulted in an increase in the paid up share capital of the Bank by AED 687,516,883 from AED 1,375,033,766 (1,375,033,766 ordinary shares) to AED 2,062,550,649 (2,062,550,649 ordinary shares).

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.

5 CASH AND BALANCES WITH THE UAE CENTRAL BANK

	***Unaudited* 30 June 2018 AED'000**	*Audited* 31 December 2017 AED'000
Cash on hand	**89,526**	83,551
Balances with the UAE Central Bank:		
Clearing accounts	**210,735**	271,735
Certificate of deposits	**700,000**	1,000,000
Reserve requirements	**719,656**	661,342
	1,719,917	2,016,628

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

6 DUE FROM OTHER BANKS

	***Unaudited* 30 June 2018 AED'000**	*Audited* 31 December 2017 AED'000
Demand deposits	**126,889**	203,355
Term deposits	**257,075**	210,173
	383,964	413,528

Due from other banks include AED 112,026,000 (31 December 2017: AED 170,937,000) placed with foreign banks outside the UAE. AED 3,122,000 (31 December 2017: AED 21,226,000) is held as margin for derivative transactions.

7 LOANS AND ADVANCES

	Unaudited 30 June 2018 AED'000	*Audited 31 December 2017 AED'000*
The composition of the loans and advances portfolio is as follows:		
Overdrafts	**1,869,536**	1,634,888
Term loans (medium and short term)	**10,630,812**	10,802,585
Loans against trust receipts	**1,103,722**	1,281,644
Bills discounted	**270,688**	233,693
Other cash advances	**66,698**	70,006
Bills drawn under letters of credit	**100,611**	135,690
Gross amount of loans and advances	**14,042,067**	14,158,506
Less: Provision for impairment and ECL on loans and advances	**(1,285,139)**	(1,030,159)
Net loans and advances	**12,756,928**	13,128,347

At 30 June 2018, the gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance amounted to AED 1,237,512,000 (31 December 2017: AED 1,206,434,000).

The Bank does not have any direct exposure to, or investments in the Abraaj Group or any of its funds. However, indirect exposure exists with two entities that are partially (and indirectly) owned by Abraaj Group.

8 INVESTMENTS

	Unaudited 30 June 2018			*Audited 31 December 2017*		
	Quoted AED'000	***Unquoted AED'000***	***Total AED'000***	*Quoted AED'000*	*Unquoted AED'000*	*Total AED'000*
Debt:						
FVTPL						
Local	**3,139**	**-**	**3,139**	-	-	-
Overseas	**186,413**	**-**	**186,413**	-	-	-
Held for trading						
Overseas	**-**	**-**	**-**	196,497	-	196,497
FVOCI						
Local	**3,003,551**	**-**	**3,003,551**	-	-	-
Overseas	**547,536**	**-**	**547,536**	-	-	-
Available for sale						
Local	**-**	**-**	**-**	2,714,638	-	2,714,638
Overseas	**-**	**-**	**-**	474,611	-	474,611
Amortised cost						
Local	**48,945**	**-**	**48,945**	-	-	-
Held to maturity						
Local	**-**	**-**	**-**	18,489	-	18,489
Total debt securities	**3,789,584**	**-**	**3,789,584**	3,404,235	-	3,404,235
Equity:						
FVOCI						
Local	**-**	**467**	**467**	-	-	-
Overseas	**9,074**	**76**	**9,150**	-	-	-
Available for sale						
Local	**-**	**-**	**-**	-	301	301
Overseas	**-**	**-**	**-**	8,824	76	8,900
Total equities	**9,074**	**543**	**9,617**	8,824	377	9,201
Total investments	**3,798,658**	**543**	**3,799,201**		377	3,413,436
Expected credit loss			**(1,426)**			-
Net investments			**3,797,775**			3,413,436

Investment securities include AED 1,119,353,000 (31 December 2017: AED 784,565,000) pledged under repurchase agreements with the lenders (Note 9).

9 DUE TO BANKS

	Unaudited 30 June 2018 AED'000	*Audited 31 December 2017 AED'000*
Demand deposits	**39,767**	41,942
Term deposits	**2,016,806**	1,501,948
	2,056,573	1,543,890

Due to banks include AED 29,329,000 (31 December 2017: AED 28,079,000) held as margin for derivative transactions.

Term deposits include borrowings through repurchase agreements of AED 899,763,000 (31 December 2017: AED 642,653,000).

10 CUSTOMERS' DEPOSITS

	Unaudited 30 June 2018 AED'000	*Audited 31 December 2017 AED'000*
Term and call deposits	**9,828,221**	11,094,811
Current accounts	**3,758,936**	3,645,735
Savings accounts	**293,890**	309,371
	13,881,047	15,049,917

11 MEDIUM TERM BORROWINGS

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

	Unaudited 30 June 2018 AED'000	*Audited 31 December 2017 AED'000*
Balance as at 1 January	**844,629**	1,524,005
New borrowings	-	-
Repayments	-	(679,376)
Balance as at period / year end	**844,629**	844,629

11 MEDIUM TERM BORROWINGS (continued)

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

Maturity	Currency	Fixed / Floating	Interest Rate	*Unaudited 30 June 2018 AED'000*	*Audited 31 December 2017 AED '000*
2018	USD	Floating	LIBOR + Margin	**844,629**	844,629
				844,629	844,629

12 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:

	Unaudited 30 June 2018 AED'000	*Audited 31 December 2017 AED'000*
Contingent liabilities		
Letters of credit	**515,084**	448,907
Guarantees	**3,665,397**	3,593,558
	4,180,481	4,042,465
Commitments		
Undrawn loan commitments	**2,435,161**	2,496,648

13 CREDIT RISK

Credit risk is the risk of suffering financial loss, should any of the Bank's customers fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from loans and advances, loan commitments arising from such lending activities, trade finance and treasury activities. The Bank is also exposed to other credit risk arising from investments in debt instruments.

Credit risk is the single largest risk from the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a risk management department which reports regularly to the Board Risk Committee.

The following table contains an analysis of the credit risk exposure of financial assets which are subject to ECL. The gross carrying amount of financial assets below represents the Bank's maximum exposure to credit risk on these assets:

	Unaudited 30 June 2018				*Audited 31 December 2017*
	ECL staging				
Credit risk exposures relating to on-balance sheet assets:	*Stage 1 12-month ECL AED'000*	*Stage 2 Lifetime ECL AED'000*	*Stage 3 Lifetime ECL AED'000*	*Total AED'000*	*Total AED'000*
Cash and balances with the UAE Central Bank					
High grade	**1,630,391**	-	-	**1,630,391**	1,933,077
Carrying amount	**1,630,391**	-	-	**1,630,391**	1,933,077
Due from banks					
High grade	**58,683**	-	-	**58,683**	181,948
Standard	**325,281**	-	-	**325,281**	231,580
Carrying amount	**383,964**	-	-	**383,964**	413,528
Loan and advances - At amortised cost					
High grade	**38,060**	-	-	**38,060**	74,515
Standard	**10,451,755**	**1,071,029**	**39,471**	**11,562,255**	11,557,813
Substandard	**120,635**	**1,068,855**	**14,750**	**1,204,240**	1,200,730
Default	-	-	**1,237,512**	**1,237,512**	1,235,448
	10,610,450	**2,139,884**	**1,291,733**	**14,042,067**	14,158,506
Credit loss allowance	**(70,164)**	**(377,533)**	**(837,442)**	**(1,285,139)**	(1,030,159)
Carrying amount	**10,540,286**	**1,762,351**	**454,291**	**12,756,928**	13,128,347

13 CREDIT RISK (continued)

	Unaudited 30 June 2018				*Audited 31 December 2017*
	ECL staging				
Credit risk exposures relating to on-balance sheet assets:	*Stage 1 12-month ECL AED'000*	*Stage 2 Lifetime ECL AED'000*	*Stage 3 Lifetime ECL AED'000*	*Total AED'000*	*Total AED'000*
Investments – FVOCI					
High grade	**2,346,922**	**-**	**-**	**2,346,922**	1,938,379
Standard	**1,172,227**	**31,938**	**-**	**1,204,165**	1,250,870
Carrying amount	**3,519,149**	**31,938**	**-**	**3,551,087**	3,189,249
Investments – Amortised cost					
High grade	**48,945**	**-**	**-**	**48,945**	18,489
	48,945	**-**	**-**	**48,945**	18,489
Loss allowance	**(1,426)**	**-**	**-**	**(1,426)**	-
Carrying amount	**47,519**	**-**	**-**	**47,519**	18,489
Other assets					
High grade	**-**	**-**	**-**	**-**	160,546
Standard	**433,341**	**32,556**	**-**	**465,897**	546,172
Substandard	**-**	**33,760**	**-**	**33,760**	60,104
Carrying amount	**433,341**	**66,316**	**-**	**499,657**	766,822
Credit risk exposures relating to off-balance sheet items:					
Contingent liabilities					
High grade	**14,130**	**-**	**-**	**14,130**	93,601
Standard	**3,480,829**	**366,375**	**-**	**3,847,204**	3,582,773
Substandard	**15**	**277,899**	**339**	**278,253**	314,792
Default	**-**	**-**	**40,894**	**40,894**	51,299
	3,494,974	**644,274**	**41,233**	**4,180,481**	4,042,465
Loss allowance	**(13,002)**	**(30,453)**	**(16,876)**	**(60,331)**	-

13 CREDIT RISK (continued)

The table below shows the maximum exposure to credit risk – financial instruments not subject to impairment.

	Unaudited 30 June 2018 AED'000	*Audited 31 December 2017 AED'000*
Investments - FVTPL	**189,552**	196,497
Derivative assets	**127,030**	110,760
Undrawn loan commitments	**3,665,397**	2,496,648
	3,981,979	2,803,905

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

The following table explains the changes in the loss allowance during the six month period ended 30 June 2018:

	Stage 1 12 month ECL AED'000	*Stage 2 Lifetime ECL not credit impaired AED'000*	*Stage 3 Lifetime ECL credit impaired AED'000*	*Total AED'000*
Loans and advances				
Balance as at 1 January 2018	**75,835**	**445,437**	**758,690**	**1,279,962**
Changes due to financial assets recognised in the opening balance that have				
Transferred to 12 month ECL	-	-	-	-
Transferred to lifetime ECL not credit impaired	**(1,742)**	**1,742**	-	-
Transfer to lifetime ECL credit-impaired	**(314)**	**(78,615)**	**78,929**	-
Charge to income statement from continuing operations	**(3,615)**	**8,969**	**104,796**	**110,150**
Write-offs	-	-	**(104,973)**	**(104,973)**
Balance at 30 June 2018	**70,164**	**377,533**	**837,442**	**1,285,139**

13 CREDIT RISK (continued)

The following table explains the changes in the loss allowance between the beginning and the end of the annual period due to the factors below (continued):

	12 month ECL	*Lifetime ECL not credit impaired*	*Lifetime ECL credit impaired*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*
Investments – FVOCI & amortised cost				
Balance as at 1 January 2018	**15,718**	**431**	**-**	**16,149**
Charge to income statement from continuing operations	**3,060**	**(74)**	**-**	**2,986**
Write-offs	**-**	**-**	**-**	**-**
Balance at 30 June 2018	**18,778**	**357**	**-**	**19,135**
Letters of credit and guarantees				
Balance as at 1 January 2018	**11,486**	**35,805**	**16,876**	**64,167**
Changes due to provisions recognised on the opening balance that have				
Transferred to 12 month ECL	**853**	**(853)**	**-**	**-**
Transferred to lifetime ECL not credit impaired	**(467)**	**467**	**-**	**-**
Transfer to lifetime ECL credit-Impaired	**-**	**-**	**-**	**-**
Charge to income statement from continuing operations	**1,130**	**(4,966)**	**-**	**(3,836)**
Write-offs	**-**	**-**	**-**	**-**
Balance at 30 June 2018	**13,002**	**30,453**	**16,876**	**60,331**

Impairment losses recognized in the income statement is as follows:

	***Unaudited* 30 June 2018**	*Audited* 31 December 2017
	AED'000	*AED'000*
Impairment losses charged including ECL	**109,300**	314,192
Recoveries of bad debts written off	**(16,678)**	(24,915)
Net impairment losses	**92,622**	289,277

14 DIVIDENDS

At the annual general meeting of the shareholders held on 9 April 2018, no cash or scrip dividend (30 June 2017: Nil) for 2017 (30 June 2017: Nil for 2016) was proposed or subsequently approved.

15 SEGMENTAL INFORMATION

For the purposes of reporting to the chief operating decision makers, the Bank 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 management of the Bank's funding operations; and
Others	-	Includes the non-core 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 charged / credited to business segments based on a pool rate which approximates the marginal cost of funds.

Segmental information for the six month period ended 30 June 2018 is as follows:

	Corporate banking AED'000	*Retail banking AED'000*	*Treasury AED'000*	*Others AED'000*	*Total AED'000*
Net interest income	**151,149**	**53,274**	**37,548**	**10,937**	**252,908**
Other operating income	**55,152**	**9,645**	**21,540**	**1,985**	**88,322**
Operating expenses	**(93,330)**	**(44,362)**	**(26,730)**	**(3,645)**	**(168,067)**
Net impairment losses	**(61,985)**	**(20,104)**	**(2,937)**	**(7,596)**	**(92,622)**
Profit for the period	**50,986**	**(1,547)**	**29,421**	**1,681**	**80,541**
Capital expenditure - Property and equipment	**5,469**	**3,381**	**895**	**199**	**9,944**
At 30 June 2018					
Segment assets	**10,901,727**	**3,126,455**	**6,028,651**	**123,200**	**20,180,033**
Segment liabilities	**11,528,804**	**2,991,052**	**2,971,263**	**156,500**	**17,647,619**

15 SEGMENTAL INFORMATION (continued)

Segmental information for the six month period ended 30 June 2017 was as follows:

	Corporate banking AED'000	*Retail banking AED'000*	*Treasury AED'000*	*Others AED'000*	*Total AED'000*
Net interest income	125,336	59,660	29,599	30,771	245,366
Other operating income	73,852	14,024	11,470	908	100,254
Operating expenses	(84,665)	(61,479)	(22,810)	(5,241)	(174,195)
Net impairment losses	17,450	(44,338)	-	(89,389)	(116,277)
Profit / (loss) for the period	131,973	(32,133)	18,259	(62,951)	55,148
Capital expenditure - Property and equipment	14,830	9,168	2,427	539	26,964
At 30 June 2017					
Segment assets	11,333,622	3,375,847	6,024,545	423,002	21,157,016
Segment liabilities	11,525,209	3,390,896	3,879,086	179,653	18,974,844

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.

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:

	Unaudited 30 June 2018 AED'000	*Audited 31 December 2017 AED'000*
Shareholders:		
Due from banks	**565**	1,413
Due to banks	**4,032**	5,180
Medium term borrowings	**91,808**	91,808
Commitments and contingencies	**5,491**	12,491
Directors:		
Loans and advances	**209,356**	250
Customers' deposits	**3,694**	8,545
Commitments and contingencies	**45**	45
Other related entities of shareholders and directors:		
Loans and advances	**303,308**	293,499
Investments	**80,428**	85,850
Due from banks	**10**	101
Due to banks	**31**	68
Customers' deposits	**210,405**	179,566
Commitments and contingencies	**242,254**	245,614

16 RELATED PARTY TRANSACTIONS (continued)

	Unaudited 30 June 2018 AED'000 Unaudited	*Audited 31 December 2017 AED'000 Audited*
Key management personnel of the Bank:		
Loans and advances	**3,866**	5,699
Customers' deposits	**3,015**	4,696
Shareholders, directors, their related entities and key management personnel:		
Accrued interest income	**5,379**	4,779
Accrued interest expense	**1,462**	3,011

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:

	Unaudited six month period ended 30 June	
	2018 AED'000	*2017 AED'000*
Shareholders, directors and their related entities		
Interest income	**19,162**	10,316
Interest expense	**2,654**	3,249
Gain from sale of investments	-	145
Purchase of investments	-	19,555
Sale of investments	-	19,518

16 RELATED PARTY TRANSACTIONS (continued)

Key management personnel

	Unaudited six month period ended 30 June	
	2018	2017
Number of key management personnel	**9**	10
	AED'000	*AED'000*
Salaries and other short term benefits	**10,895**	8,857
Employees' end of service benefits	**738**	56
Total compensation to key management personnel	**11,633**	8,913
Interest income	**56**	82
Interest expense	**18**	23

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 an 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 six month period ended 30 June 2018, the Bank has not recorded any impairment on amounts owed by related parties (30 June 2017: Nil).

The Bank has leased office space in various premises owned by a related party. The property rentals and associated expenses for the six month period ended 30 June 2018 amounted to AED 1,375,000 (30 June 2017: AED 1,183,000). The property rentals are negotiated each year at market rates.

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:

30 June 2018	***Level 1 AED'000***	***Level 2 AED'000***	***Level 3 AED'000***	***Total AED'000***
Investments	**3,749,713**	**-**	**543**	**3,750,256**
Derivative assets	**-**	**127,030**	**-**	**127,030**
	3,749,713	**127,030**	**543**	**3,877,286**
Derivative liabilities	**-**	**70,096**	**-**	**70,096**
31 December 2017				
Investments	3,394,570	-	377	3,394,947
Derivative assets	-	110,760	-	110,760
	3,394,570	110,760	377	3,505,707
Derivative liabilities	-	88,948	-	88,948

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's 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 from their carrying values.