

# **United Arab Bank P.J.S.C.**

**Review report and condensed interim financial statements**

**For the six months period ended 30 June 2021**

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## REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF UNITED ARAB BANK P.J.S.C.

### Introduction

We have reviewed the accompanying condensed interim financial statements of United Arab Bank P.J.S.C. (the "Bank"), which comprise the interim statement of financial position as at 30 June 2021 and the related interim statements of income and comprehensive income for the three months and six months period then ended, statements of cash flows and changes in equity for the six month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these condensed interim 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 number: 689

10 August 2021

Sharjah, United Arab Emirates

# United Arab Bank P.J.S.C.

## INTERIM STATEMENT OF FINANCIAL POSITION

For the six months period ended 30 June 2021 (Unaudited)

		<i>Unaudited</i> <b>30 June</b> <b>2021</b> <b>AED'000</b>	<i>Audited</i> <b>31 December</b> <b>2020</b> <b>AED'000</b>
	<i>Note</i>		
<b>Assets</b>			
Cash and balances with UAE Central Bank	5	<b>1,758,667</b>	1,406,322
Due from other banks	6	<b>451,580</b>	296,525
Loans and advances and Islamic financing receivables	7	<b>8,035,265</b>	9,013,639
Investments and Islamic instruments	8	<b>3,401,837</b>	3,281,726
Property, equipment and capital work-in-progress		<b>307,398</b>	327,790
Other assets		<b>593,993</b>	523,147
<b>TOTAL ASSETS</b>		<b>14,548,740</b>	14,849,149
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Due to banks	9	<b>1,543,673</b>	1,233,470
Customer deposits and Islamic customer deposits	10	<b>10,639,335</b>	11,246,835
Other liabilities		<b>869,069</b>	914,301
<b>TOTAL LIABILITIES</b>		<b>13,052,077</b>	13,394,606
<b>Shareholders' equity</b>			
Share capital	4	<b>2,062,550</b>	2,062,550
Statutory reserve		<b>28,924</b>	28,924
General reserve		<b>9,311</b>	9,311
Revaluation reserve		-	517
Cumulative changes in fair value		<b>35,696</b>	20,498
Accumulated losses		<b>(639,818)</b>	(667,257)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1,496,663</b>	1,454,543
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>14,548,740</b>	14,849,149

This condensed interim financial information was approved by the Board of Directors on 10 August 2021 and signed on its behalf by:

  
 Sheikh Faisal Bin Sultan Bin Salem Al Qassimi  
 Chairman

  
 Ahmad AbuEideh  
 Chief Executive Officer

The notes on pages 8 to 27 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 six months period ended 30 June 2021 (Unaudited)

	Notes	Three month period ended 30 June (Unaudited)		Six month period ended 30 June (Unaudited)	
		2021 AED'000	2020 AED'000	2021 AED'000	2020 AED'000
Interest income		<b>124,045</b>	156,732	<b>238,867</b>	337,018
Income from Islamic financing products		<b>6,906</b>	6,081	<b>13,454</b>	18,641
<b>Total interest income and income from Islamic financing products</b>		<b>130,951</b>	162,813	<b>252,321</b>	355,659
Interest expense		<b>(37,670)</b>	(72,778)	<b>(79,620)</b>	(154,386)
Distribution to depositors – Islamic products		<b>(14,142)</b>	(14,318)	<b>(29,428)</b>	(37,904)
<b>Total interest expense and distribution to depositors</b>		<b>(51,812)</b>	(87,096)	<b>(109,048)</b>	(192,290)
<b>Net interest income and income from Islamic products net of distribution to depositors</b>		<b>79,139</b>	75,717	<b>143,273</b>	163,369
Net fees and commission income		<b>12,585</b>	6,737	<b>24,134</b>	19,477
Foreign exchange income		<b>4,685</b>	4,024	<b>8,997</b>	8,592
Other operating income		<b>7,638</b>	6,887	<b>59,962</b>	27,541
<b>Total operating income</b>		<b>104,047</b>	93,365	<b>236,366</b>	218,979
Employee benefit expenses		<b>(35,304)</b>	(42,436)	<b>(70,632)</b>	(80,519)
Other operating expenses		<b>(18,031)</b>	(17,574)	<b>(35,534)</b>	(35,383)
Depreciation		<b>(6,761)</b>	(7,933)	<b>(13,573)</b>	(15,619)
<b>Total operating expenses</b>		<b>(60,096)</b>	(67,943)	<b>(119,739)</b>	(131,521)
<b>Profit before impairment loss</b>		<b>43,951</b>	25,422	<b>116,627</b>	87,458
Net impairment loss	12	<b>(27,229)</b>	(114,424)	<b>(89,705)</b>	(296,403)
<b>Net profit / (loss) for the period</b>		<b>16,722</b>	(89,002)	<b>26,922</b>	(208,945)
<b>Earnings per share (basic and diluted in AED)</b>	4	<b>0.01</b>	(0.04)	<b>0.01</b>	(0.10)

The notes on pages 8 to 27 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 COMPREHENSIVE INCOME

For the six months period ended 30 June 2021 (Unaudited)

	<i>Three month period ended 30 June (Unaudited)</i>		<i>Six month period ended 30 June (Unaudited)</i>	
	<b>2021</b> <i>AED'000</i>	2020 <i>AED'000</i>	<b>2021</b> <i>AED'000</i>	2020 <i>AED'000</i>
<b>Net profit / (loss) for the period</b>	<b>16,722</b>	(89,002)	<b>26,922</b>	(208,945)
<b>Other comprehensive income / (loss)</b>				
<i>Items that are or may be reclassified subsequently to the statement of income</i>				
<b>Fair value through other comprehensive income (FVOCI):</b>				
Net change in fair value during the period	<b>40,007</b>	236,118	<b>(15,625)</b>	(35,799)
Change in allowance for expected credit losses	<b>67</b>	1,568	<b>4,313</b>	(2,142)
Reclassified to the income statement	<b>4,870</b>	(11,362)	<b>26,510</b>	(140,094)
Other comprehensive income / (loss) for the period	<b>44,944</b>	226,324	<b>15,198</b>	(178,035)
<b>Total comprehensive income / (loss) for the period</b>	<b>61,666</b>	137,322	<b>42,120</b>	(386,980)

# United Arab Bank P.J.S.C.

## INTERIM STATEMENT OF CASH FLOWS

For the six months period ended 30 June 2021 (Unaudited)

	<i>Six months period ended 30 June (unaudited)</i>	
	<i>2021 AED'000</i>	<i>2020 AED'000</i>
<b>Operating activities</b>		
Net profit / (loss) for the period	<b>26,922</b>	(208,945)
Adjustments for:		
Depreciation	<b>13,573</b>	15,620
Loss on write off of property, equipment and capital work-in-progress	-	1,868
Gain on sale of property and equipment	<b>(2,904)</b>	(90)
Gain on sale of assets acquired in settlement of debt	<b>(846)</b>	-
Impairment on assets acquired in settlement of debt	<b>12</b>	-
Net credit impairment losses	<b>12</b>	296,403
Amortisation of premium paid on investments	<b>7,191</b>	11,416
Net fair value gain on disposal of investments and Islamic instruments	<b>(40,881)</b>	(4,129)
Unrealised loss on investments	<b>2</b>	239
<b>Operating cash flows before movements in working capital</b>	<b>92,762</b>	112,382
Changes in operating assets and liabilities:		
Loans and advances and Islamic financing receivables	<b>7</b>	916,962
Balances with the UAE Central Bank maturing after three months	<b>5,501</b>	430,057
Cash margin held by counterparty banks against borrowings and derivative transactions	<b>73,211</b>	(113,884)
Other assets	<b>(78,963)</b>	70,810
Due to banks maturing after three months	<b>(172,385)</b>	1,033,150
Customer deposits and Islamic customer deposits	<b>10</b>	(1,021,013)
Other liabilities	<b>45,615</b>	(197,666)
<b>Net cash generated from operating activities</b>	<b>228,937</b>	1,230,798
<b>Investing activities</b>		
Purchase of property, equipment and capital work-in-progress	<b>(5,323)</b>	(12,470)
Purchase of investments	<b>(1,026,669)</b>	(6,904)
Proceeds from redemption / sale of investments	<b>886,132</b>	122,486
Proceeds from sale of property and equipment	<b>7,500</b>	90
Proceeds from sale of assets acquired in settlement of debt	<b>12,947</b>	-
<b>Net cash (used in) / generated from investing activities</b>	<b>(125,413)</b>	103,202
<b>Financing activities</b>		
Rights issue costs	-	-
Medium term borrowings	-	(1,487,363)
<b>Net cash used in financing activities</b>	<b>-</b>	(1,487,363)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>103,524</b>	(153,363)
Cash and cash equivalents at 1 January	<b>746,707</b>	1,100,098
<b>Cash and cash equivalents at 30 June</b>	<b>850,231</b>	946,735

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	<b>1,478,447</b>	1,208,270
Due from other banks	<b>303,604</b>	111,846
Due to banks	<b>(931,820)</b>	(373,381)
	<b>850,231</b>	946,735

The notes on pages 8 to 27 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 CHANGES IN EQUITY

For the six months period ended 30 June 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	-	-	-	-	-	-	26,922	26,922
Other comprehensive income for the period	-	-	-	-	-	15,198	-	15,198
Total comprehensive income for the period	-	-	-	-	-	15,198	26,922	42,120
Depreciation transfer for land and buildings	-	-	-	-	(6)	-	6	-
Revaluation transfer upon sale of building	-	-	-	-	(511)	-	511	-
<b>At 30 June 2021 (unaudited)</b>	<b>2,062,550</b>	<b>-</b>	<b>28,924</b>	<b>9,311</b>	<b>-</b>	<b>35,696</b>	<b>(639,818)</b>	<b>1,496,663</b>
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	-	-	-	-	-	-	(208,945)	(208,945)
Other comprehensive loss for the period	-	-	-	-	-	(178,035)	-	(178,035)
Total comprehensive income for the period	-	-	-	-	-	(178,035)	(208,945)	(386,980)
Accumulated losses offset against reserves (note 4)	-	(422,116)	(475,747)	-	-	-	897,863	-
Depreciation transfer for land and buildings	-	-	-	-	(19)	-	19	-
<b>At 30 June 2020 (unaudited)</b>	<b>2,062,550</b>	<b>-</b>	<b>28,924</b>	<b>9,311</b>	<b>536</b>	<b>(119,061)</b>	<b>(208,926)</b>	<b>1,773,334</b>

The notes on pages 8 to 27 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.



## 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 Bank’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.

IBORs, such as the London Interbank Offered Rate (“LIBOR”), play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments.

Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates (“RFRs”) and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

The majority of LIBOR and other IBORs are to be discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates (“ARRs”), with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023.

The Bank is in process of assessing the impact of rate replacement on its product and services, however as on 30 June 2021 it does not believe that the impact will be significant.

### 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 information 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 six months period ended 30 June 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 639,818,000 incurred till 30 June 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.

### 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 six months period ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	<i>AED</i>	<i>AED</i>
Net profit / (loss) for the period	<b>26,922,000</b>	(208,945,000)
<i>Weighted average number of ordinary shares:</i> Weighted average number of shares of AED 1 each outstanding for the period	<b>2,062,550,649</b>	2,062,550,649
Basic earnings per share	<b>AED 0.01</b>	AED (0.10)

# United Arab Bank P.J.S.C.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months period ended 30 June 2021 (Unaudited)

### 4 EARNINGS PER SHARE (continued)

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</i> <b>30 June</b> <i>2021</i> <b>AED'000</b>	<i>Audited</i> <b>31 December</b> <i>2020</i> <b>AED'000</b>
Cash on hand	<b>60,078</b>	64,398
Balances with UAE Central Bank:		
Overnight deposit facility	<b>400,000</b>	850,000
Reserve requirements	<b>1,298,589</b>	491,924
	<b><u>1,758,667</u></b>	<u>1,406,322</u>

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.

The reserve requirement as at 30 June 2021 amounted to AED 280,220 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> <b>30 June</b> <i>2021</i> <b>AED'000</b>	<i>Audited</i> <b>31 December</b> <i>2020</i> <b>AED'000</b>
Demand deposits	<b>251,580</b>	296,525
Term deposits	<b>200,000</b>	-
	<b><u>451,580</u></b>	<u>296,525</u>

**6 DUE FROM OTHER BANKS (continued)**

Due from other banks include AED 140,105,000 (31 December 2020: AED 127,356,000) placed with foreign banks outside the UAE. AED 147,976,000 (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	<b>197,995</b>	-	-	<b>197,995</b>
Standard	<b>253,585</b>	-	-	<b>253,585</b>
<b>As at 30 June 2021 (unaudited)</b>	<b>451,580</b>	-	-	<b>451,580</b>
	<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
<b>As at 31 December 2020 (audited)</b>	<b>296,525</b>	-	-	<b>296,525</b>

The Bank holds a stage 1 expected credit loss allowance of AED 175,200 (31 December 2020: AED 112,000) on its due from other banks.

**7 LOANS AND ADVANCES AND ISLAMIC FINANCING RECEIVABLES**

	<i>Unaudited</i> <i>30 June</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	<b>1,056,293</b>	1,192,258
Term loans (medium and short term)*	<b>7,496,874</b>	8,676,243
Loans against trust receipts	<b>570,886</b>	530,210
Bills discounted	<b>101,663</b>	152,875
Other cash advances	<b>57,845</b>	51,051
Bills drawn under letters of credit	<b>32,763</b>	66,546
Gross amount of loans and advances and Islamic financing receivables	<b>9,316,324</b>	10,669,183
Less: Provision for impairment on loans and advances and Islamic financing receivables	<b>(1,281,059)</b>	(1,655,544)
Net loans and advances and Islamic financing receivables	<b>8,035,265</b>	9,013,639

\* Includes retail loans of AED 2,034,470,000 (2020: AED 2,372,456,000)

Islamic financing receivables amount to AED 565,644,000 (31 December 2020: AED 581,777,000) recognized through the Bank's Shari'a – compliant Islamic window.

At 30 June 2021, the gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance amounted to AED 1,557,320,000 (31 December 2020: AED 1,677,199,000).

**7 LOANS AND ADVANCES AND ISLAMIC FINANCING RECEIVABLES (continued)**

**Grading of gross balances of loans and advances and Islamic financing receivables 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	17,009	-	-	17,009
Standard	7,045,650	372,713	-	7,418,363
Watchlist	-	323,632	-	323,632
Default	-	-	1,557,320	1,557,320
Total gross carrying amount	7,062,659	696,345	1,557,320	9,316,324
Expected credit loss	(129,258)	(145,843)	(1,005,958)	(1,281,059)
<b>As at 30 June 2021 (unaudited)</b>	<b>6,933,401</b>	<b>550,502</b>	<b>551,362</b>	<b>8,035,265</b>
	<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)
<b>As at 31 December 2020 (audited)</b>	<b>7,380,660</b>	<b>1,229,085</b>	<b>403,894</b>	<b>9,013,639</b>

**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	(559,161)	(308,147)	99,986	(767,322)
Write-offs	-	-	(585,537)	(585,537)
Transferred from Stage 1	(29,753)	29,753	-	-
Transferred from Stage 2	170,241	(563,392)	393,151	-
Transferred from Stage 3	13,274	14,205	(27,479)	-
<b>As at 30 June 2021</b>	<b>7,062,659</b>	<b>696,345</b>	<b>1,557,320</b>	<b>9,316,324</b>
	<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)	-
<b>As at 31 December 2020</b>	<b>7,468,058</b>	<b>1,523,926</b>	<b>1,677,199</b>	<b>10,669,183</b>

# United Arab Bank P.J.S.C.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months period ended 30 June 2021 (Unaudited)

### 7 LOANS AND ADVANCES AND ISLAMIC FINANCING RECEIVABLES (continued)

#### 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	9,754	(9,754)	-	-
Transferred to lifetime ECL not credit impaired	(32,136)	32,136	-	-
Transferred to lifetime ECL credit-impaired	-	(172,081)	172,081	-
Transferred from lifetime ECL credit-impaired on commitments and contingent liabilities	-	-	10,960	10,960
Charge to income statement	64,242	701	37,183	102,126
Write-offs	-	-	(487,571)	(487,571)
<b>As at 30 June 2021 (unaudited)</b>	<b>129,258</b>	<b>145,843</b>	<b>1,005,958</b>	<b>1,281,059</b>

  

	<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)
<b>As at 31 December 2020 (audited)</b>	<b>87,398</b>	<b>294,841</b>	<b>1,273,305</b>	<b>1,655,544</b>

### 8 INVESTMENTS AND ISLAMIC INSTRUMENTS

	<i>Unaudited</i> <i>30 June 2021</i>			<i>Audited</i> <i>31 December 2020</i>		
	<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>
<b>Debt:</b>						
<b>FVTPL</b>						
Overseas	1,834	-	1,834	-	-	-
<b>FVOCI</b>						
Local	2,289,259	-	2,289,259	2,473,714	-	2,473,714
Overseas	1,014,526	-	1,014,526	807,377	-	807,377
<b>Amortised cost</b>						
Overseas	97,793	-	97,793	-	-	-
<b>Total debt securities</b>	<b>3,403,412</b>	<b>-</b>	<b>3,403,412</b>	<b>3,281,091</b>	<b>-</b>	<b>3,281,091</b>

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months period ended 30 June 2021 (Unaudited)

**8 INVESTMENTS AND ISLAMIC INSTRUMENTS (continued)**

	<i>Unaudited</i> 30 June 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>
<b>Equity:</b>						
<b>FVOCI</b>						
Local	-	467	467	-	467	467
Overseas	131	76	207	92	76	168
<b>Total equities</b>	<b>131</b>	<b>543</b>	<b>674</b>	92	543	635
<b>Total investments</b>	<b>3,403,543</b>	<b>543</b>	<b>3,404,086</b>	3,281,183	543	3,281,726
Expected credit loss			(2,249)			(100)
<b>Net investments</b>			<b>3,401,837</b>			3,281,626

Included in the above are investment securities amounting to AED 146,599,000 (31 December 2020: AED 741,667,000) secured under repurchase agreement with the lenders. The Banks holds an ECL allowance of AED 111,000 (31 December 2020: AED 3,208,000) on these investment securities secured under repurchase agreements.

**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	1,767,293	-	-	1,767,293
Standard	1,634,959	-	-	1,634,959
Total gross carrying amount	3,402,252	-	-	3,402,252
Expected credit loss	(26,328)	-	-	(26,328)
<b>As at 30 June 2021 (unaudited)</b>	<b>3,375,924</b>	-	-	<b>3,375,924</b>
	<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	1,420,615	-	-	1,420,615
Standard	1,861,111	-	-	1,861,111
Total gross carrying amount	3,281,726	-	-	3,281,726
Expected credit loss	(19,758)	-	-	(19,758)
<b>As at 31 December 2020 (audited)</b>	<b>3,261,968</b>	-	-	<b>3,261,968</b>

**8 INVESTMENTS AND ISLAMIC INSTRUMENTS (continued)**

**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 charge to income statement	6,570	-	-	6,570
<b>As at 30 June 2021 (unaudited)</b>	<b>26,328</b>	<b>-</b>	<b>-</b>	<b>26,328</b>

  

	<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

**9 DUE TO BANKS**

	<i>Unaudited</i> <i>30 June</i> <i>2021</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2020</i> <i>AED'000</i>
Demand deposits	2,565	27,732
Term deposits	1,541,108	1,205,738
	<b>1,543,673</b>	<b>1,233,470</b>

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 128,000,000 (31 December 2020: AED 605,938,000).

**10 CUSTOMER DEPOSITS AND ISLAMIC CUSTOMER DEPOSITS**

	<i>Unaudited</i> <i>30 June</i> <i>2021</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2020</i> <i>AED'000</i>
Term deposits	7,569,495	8,359,748
Current accounts	2,727,809	2,563,013
Call and savings accounts	342,031	324,074
	<b>10,639,335</b>	<b>11,246,835</b>

Customer's deposits include Islamic customer deposits amounting to AED 2,645,403,000 (31 December 2020: AED 3,390,329,000) undertaken through the Bank's Shari'a – compliant Islamic window.



# United Arab Bank P.J.S.C.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months period ended 30 June 2021 (Unaudited)

### 11 MEDIUM TERM BORROWINGS

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

	<i>Unaudited</i> <b>30 June</b> <b>2021</b> <b>AED'000</b>	<i>Audited</i> <b>31 December</b> <b>2020</b> <b>AED'000</b>
Balance as at 1 January	-	1,487,363
Issued during the period / year	-	-
Repaid during the period / year	-	(1,487,363)
	<hr/>	<hr/>
Balance as at period / year end	<b>-</b>	<b>-</b>
	<hr/> <hr/>	<hr/> <hr/>

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

### 12 NET IMPAIRMENT LOSS

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

	<i>Six months period ended</i> <b>30 June (Unaudited)</b>	
	<b>2021</b> <b>AED'000</b>	<b>2020</b> <b>AED'000</b>
Net impairment of financial assets on:		
Loans and advances and Islamic financing receivables	<b>113,086</b>	304,855
Contingent liabilities	<b>(26,745)</b>	18,871
Due from other banks	<b>63</b>	(19)
Investments and Islamic instruments	<b>6,570</b>	(2,242)
Principal waivers on loans and advances and Islamic financing receivables	<b>(2)</b>	(70)
Recovery on bad debts written-off	<b>(6,829)</b>	(31,992)
Net impairment of non-financial assets	<b>3,562</b>	7,000
	<hr/>	<hr/>
<b>Net impairment loss</b>	<b>89,705</b>	296,403
	<hr/> <hr/>	<hr/> <hr/>

### 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> <b>30 June</b> <b>2021</b> <b>AED'000</b>	<i>Audited</i> <b>31 December</b> <b>2020</b> <b>AED'000</b>
<i>Contingent liabilities</i>		
Letters of credit	<b>365,815</b>	215,578
Guarantees	<b>2,243,688</b>	2,527,627
	<hr/>	<hr/>
	<b>2,609,503</b>	2,743,205
	<hr/> <hr/>	<hr/> <hr/>
<i>Commitments</i>		
Undrawn loan commitments	<b>2,654,289</b>	3,098,643
	<hr/> <hr/>	<hr/> <hr/>

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

**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	4,947	-	-	4,947
Standard	2,086,669	265,832	-	2,352,501
Watchlist	-	84,039	-	84,039
Default	-	-	168,016	168,016
Total gross carrying amount	<u>2,091,616</u>	<u>349,871</u>	<u>168,016</u>	<u>2,609,503</u>
Expected credit loss	<u>(23,784)</u>	<u>(27,509)</u>	<u>(34,436)</u>	<u>(85,729)</u>
<b>As at 30 June 2021 (unaudited)</b>	<b><u>2,067,832</u></b>	<b><u>322,362</u></b>	<b><u>133,580</u></b>	<b><u>2,523,774</u></b>

	<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	<u>1,860,322</u>	<u>791,621</u>	<u>91,262</u>	<u>2,743,205</u>
Expected credit loss	<u>(18,255)</u>	<u>(56,710)</u>	<u>(37,397)</u>	<u>(112,362)</u>
<b>As at 31 December 2020 (audited)</b>	<b><u>1,842,067</u></b>	<b><u>734,911</u></b>	<b><u>53,865</u></b>	<b><u>2,630,843</u></b>

**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	<b>1,860,322</b>	<b>791,621</b>	<b>91,262</b>	<b>2,743,205</b>
<i>Changes due to financial assets recognized in the opening balance that have:</i>				
Transferred from Stage 1	(57,861)	57,861	-	-
Transferred from Stage 2	280,711	(369,807)	89,096	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the year	<u>8,444</u>	<u>(129,804)</u>	<u>(12,342)</u>	<u>(133,702)</u>
<b>As at 30 June 2021</b>	<b><u>2,091,616</u></b>	<b><u>349,871</u></b>	<b><u>168,016</u></b>	<b><u>2,609,503</u></b>

	<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	<u>(465,352)</u>	<u>(299,817)</u>	<u>(4,313)</u>	<u>(769,482)</u>
<b>As at 31 December 2020</b>	<b><u>1,860,322</u></b>	<b><u>791,621</u></b>	<b><u>91,262</u></b>	<b><u>2,743,205</u></b>

**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	18,367	56,710	37,397	112,474
Changes due to provisions recognized in the opening balance that have:				
Transferred to 12 month ECL	5,128	(5,128)	-	-
Transferred to lifetime ECL not credit impaired	(8,538)	8,538	-	-
Transferred to lifetime ECL credit-impaired	-	-	-	-
Transfer from / (to) ECL credit-impaired on loans	-	(7,998)	(2,961)	(10,959)
Charge to income statement	8,827	(24,613)	-	(15,786)
<b>As at 30 June 2021 (unaudited)</b>	<b>23,784</b>	<b>27,509</b>	<b>34,436</b>	<b>85,729</b>
	<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
<b>As at 31 December 2020 (audited)</b>	<b>18,255</b>	<b>56,710</b>	<b>37,397</b>	<b>112,362</b>

**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 (2018: Nil).

**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.

# United Arab Bank P.J.S.C.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months period ended 30 June 2021 (Unaudited)

### 15 SEGMENTAL INFORMATION (continued)

Segmental information for the six months period ended 30 June 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	105,619	37,654	143,273
Other operating income	83,362	9,731	93,093
Operating expenses	(88,513)	(31,226)	(119,739)
Net impairment losses	(64,079)	(25,626)	(89,705)
Profit for the period	<u>36,389</u>	<u>(9,467)</u>	<u>26,922</u>
Capital expenditure - Property and equipment	<u>4,643</u>	<u>680</u>	<u>5,323</u>
At 30 June 2021			
Segment assets	<u>12,690,256</u>	<u>1,858,484</u>	<u>14,548,740</u>
Segment liabilities	<u>10,896,631</u>	<u>2,155,446</u>	<u>13,052,077</u>

Segmental information for the six months period ended 30 June 2020 was 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	117,071	46,298	163,369
Other operating income	52,457	3,153	55,610
Operating expenses	(94,269)	(37,252)	(131,521)
Net impairment losses	(246,942)	(49,461)	(296,403)
Loss for the period	<u>(171,683)</u>	<u>(37,262)</u>	<u>(208,945)</u>
Capital expenditure - Property and equipment	<u>10,554</u>	<u>1,916</u>	<u>12,470</u>
At 30 June 2020			
Segment assets	<u>14,142,272</u>	<u>2,566,787</u>	<u>16,709,059</u>
Segment liabilities	<u>12,753,524</u>	<u>2,182,201</u>	<u>14,935,725</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.

**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 30 June 2021 AED'000</i>	<i>Audited 31 December 2020 AED'000 Restated</i>
<i>Shareholders:</i>		
Due from banks	<u>63</u>	<u>66</u>
Due to banks	<u>1,504</u>	<u>2,669</u>
Commitments and contingencies	<u>4,000</u>	<u>5,174</u>
<i>Directors:</i>		
Loans and advances	<u>10,932</u>	<u>6,511</u>
Customer deposits	<u>4,309</u>	<u>6,296</u>
Commitments and contingencies	<u>45</u>	<u>45</u>
<i>Other related entities of shareholders and directors:</i>		
Loans and advances	<u>170,909</u>	<u>180,167</u>
Investments	<u>-</u>	<u>64,131</u>
Due from banks	<u>28</u>	<u>29</u>
Due to other banks	<u>273</u>	<u>448</u>
Customer deposits	<u>235,487</u>	<u>243,954</u>
Commitments and contingencies	<u>109,921</u>	<u>97,881</u>
	<i>Unaudited 30 June 2021 AED'000</i>	<i>Audited 31 December 2020 AED'000</i>
<i>Key management personnel of the Bank:</i>		
Loans and advances	<u>4,089</u>	<u>4,136</u>
Customers' deposits	<u>4,018</u>	<u>1,445</u>
<i>Shareholders, directors, their related entities and key management personnel:</i>		
Accrued interest income	<u>205</u>	<u>1,595</u>
Accrued interest expense	<u>3,867</u>	<u>4,204</u>

**16 RELATED PARTY TRANSACTIONS (continued)**

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 six months period ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	<i>AED'000</i>	<i>AED'000</i>
<i>Shareholders, directors and their related entities</i>		
Interest income	<b>5,453</b>	11,917
Interest expense	<b>566</b>	3,404
Professional fees	<b>825</b>	-
Loss from sale of investments	<b>(4,078)</b>	-
Sale of investments	<b>66,105</b>	-
	<i>Unaudited six months period ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	<i>AED'000</i>	<i>AED'000</i>
Number of key management personnel	<b>15</b>	13
Salaries and other short term benefits	<b>9,437</b>	8,777
Employees' end of service benefits	<b>808</b>	2,053
Total compensation to key management personnel	<b>10,245</b>	10,830
Interest income	<b>61</b>	56
Interest expense	<b>-</b>	1
	<i>Unaudited six months period ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	<i>AED'000</i>	<i>AED'000</i>
Expected credit loss – (charge) to / release from income statement	<b>(1,228)</b>	(6,772)

**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.

The Bank has leased office space in various premises owned by a related party. The property leases and associated expenses for the six months period ended 30 June 2021 amounted to AED 962,000 (30 June 2020: AED 916,000). The property rentals are negotiated each year at market rates.

The Bank has granted relief vide delayed payments amounting to AED Nil (31 December 2020: AED 23,737,000) on total outstanding of AED Nil (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).

**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	<b>167,743</b>	<b>23,071</b>	-	<b>190,814</b>
Net of new assets originated and assets repaid	<b>1,286</b>	<b>(6,170)</b>	-	<b>(4,884)</b>
Write-offs	-	-	-	-
Transferred from Stage 1	<b>(461)</b>	<b>461</b>	-	-
Transferred from Stage 2	<b>1,634</b>	<b>(1,634)</b>	-	-
Transferred from Stage 3	-	-	-	-
<b>As at 30 June 2021</b>	<b>170,202</b>	<b>15,728</b>	-	<b>185,930</b>

	<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	<b>2,118</b>	<b>1,854</b>	-	<b>3,972</b>
Charge to income statement	<b>128</b>	<b>1,100</b>	-	<b>1,228</b>
<b>As at 30 June 2021</b>	<b>2,246</b>	<b>2,954</b>	-	<b>5,200</b>

**16 RELATED PARTY TRANSACTIONS (continued)**

**Movement in provision for impairment of related party 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 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)
	<u>2,118</u>	<u>1,854</u>	<u>-</u>	<u>3,972</u>
As at 31 December 2020	<u>2,118</u>	<u>1,854</u>	<u>-</u>	<u>3,972</u>

**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>
<b>30 June 2021</b>				
Investments	3,305,750	-	543	3,306,293
Derivative assets	-	11,285	-	11,285
	<u>3,305,750</u>	<u>11,285</u>	<u>543</u>	<u>3,317,578</u>
Derivative liabilities	-	160,088	-	160,088
<b>31 December 2020</b>				
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



**17 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

**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). Derivative assets and liabilities are categorised as level two based on market observable inputs. The fair value of financial instruments not recorded at fair value are not materially different to their carrying values.

The fair value of the quoted debt instruments at amortised cost as at 30 June 2021 amounted to AED 99,655,000 (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.

**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.

**30 June 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	6,741	(1,868)	2,643,742	991,237	1,456,645	195,860	-
Interest rate swaps	4,544	(4,544)	322,033	-	-	322,033	-
	<u>11,285</u>	<u>(6,412)</u>	<u>2,965,775</u>	<u>991,237</u>	<u>1,456,645</u>	<u>517,893</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 30 June 2021, the Bank held the following interest rate swaps as hedging instruments in fair value hedges of interest rate risk:

	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
<b>30 June 2021</b>							
Hedge of investments	-	(153,674)	2,052,328	-	202,722	947,523	902,083
<b>31 December 2020</b>							
Hedge of investments	-	(226,186)	2,114,107	-	55,822	1,099,375	958,910

**18 DERIVATIVES (continued)**

**Derivatives held for risk management (continued)**

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 2,219,163,000 (2020: AED 2,291,282,000). 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:

	30 June 2021		30 June 2020	
	Change in value	Effectiveness recognised in profit and loss	Change in value	Effectiveness recognised in profit and loss
	AED’000	AED’000	AED’000	AED’000
On hedging instruments	72,440	5,247	(142,551)	(7,163)
On hedged items	(67,193)		135,388	

**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.

**19 RISK MANAGEMENT (continued)**

**Analysis of customers benefitting from payment deferrals**

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

<b>30 June 2021</b>	<i>Wholesale banking AED'000</i>	<i>Retail banking AED'000</i>	<i>Total AED'000</i>
<b>Group 1</b>			
Loans and advances	103,273	484,183	587,456
Less: Expected credit losses	(20,982)	(9,001)	(29,983)
	<u>82,291</u>	<u>475,182</u>	<u>557,473</u>
<b>Group 2</b>			
Loans and advances	-	82,452	82,452
Less: Expected credit losses	-	(6,598)	(6,598)
	<u>-</u>	<u>75,854</u>	<u>75,854</u>
<b>Total</b>			
Loans and advances	103,273	566,635	669,908
Less: Expected credit losses	(20,982)	(15,599)	(36,581)
	<u>82,291</u>	<u>551,036</u>	<u>633,327</u>
Number of customers / accounts	<u>2</u>	<u>1,301</u>	<u>1,303</u>

As at 30 June 2021, the Zero Cost Funding (ZCF) under the CBUAE TESS program availed by the Bank amounts to AED 128,000,000. 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 30<sup>th</sup> June 2021.

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

<b>Loans and advances</b>	<i>Stage 1 AED'000</i>	<i>Stage 2 AED'000</i>	<i>Stage 3 AED'000</i>	<i>Total AED'000</i>
As at 31 December 2020	1,721,582	912,234	17,615	2,651,431
Net of new assets originated and assets repaid	(1,127,427)	(854,025)	(71)	(1,981,523)
Write-offs	(90,675)	89,803	872	-
Transferred from Stage 1	26,182	(61,670)	35,488	-
Transferred from Stage 2	1,237	6,355	(7,592)	-
Transferred from Stage 3	-	-	-	-
<b>As at 30 June 2021</b>	<u>530,899</u>	<u>92,697</u>	<u>46,312</u>	<u>669,908</u>

**19 RISK MANAGEMENT (continued)**

**Impact of COVID-19 on ECL (continued)**

**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	(13,730)	(189,253)	2,472	(200,511)
Write-offs	(549)	544	5	-
Transferred from Stage 1	470	(13,721)	13,251	-
Transferred from Stage 2	554	463	(1,017)	-
Transferred from Stage 3	-	-	-	-
	<u>12,452</u>	<u>4,576</u>	<u>19,553</u>	<u>36,581</u>
<b>As at 30 June 2021</b>	<b><u>12,452</u></b>	<b><u>4,576</u></b>	<b><u>19,553</u></b>	<b><u>36,581</u></b>

**20 CAPITAL ADEQUACY RATIO**

	<i>Unaudited</i> <i>30 June</i> <i>2021</i>	<i>Audited</i> <i>31 December</i> <i>2020</i>
Common equity tier 1 ratio	<b>12.3%</b>	12.5%
Tier 1 capital ratio	<b>12.3%</b>	12.5%
Capital adequacy ratio	<b>13.4%</b>	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 2021 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 30 June 2021.