

United Arab Bank P.J.S.C.

Review report and condensed interim financial statements

For the six months period ended 30 June 2019

United Arab Bank P.J.S.C.

Review report and condensed interim financial statements For the six months period ended 30 June 2019

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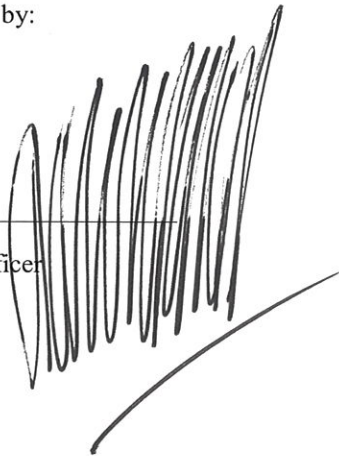
INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2019 (Unaudited)

		<i>Unaudited 30 June 2019 AED'000</i>	<i>Audited 31 December 2018 AED'000</i>
	<i>Note</i>		
Assets			
Cash and balances with UAE Central Bank	5	1,686,468	1,890,767
Due from other banks	6	246,986	520,172
Loans and advances and Islamic financing receivables	7	12,379,132	12,759,101
Investments and Islamic instruments	8	3,847,054	3,824,134
Property, equipment and capital work-in-progress		579,633	578,355
Other assets		850,809	938,488
TOTAL ASSETS		19,590,082	20,511,017
Liabilities and shareholders' equity			
Liabilities			
Due to banks	9	1,652,909	2,151,448
Customer deposits and Islamic customer deposits	10	12,904,919	14,038,959
Medium term borrowings	11	1,487,363	954,850
Other liabilities		938,282	836,300
Total liabilities		16,983,473	17,981,557
Shareholders' equity			
Share capital	4	2,062,550	2,062,550
Special reserve		422,116	422,116
Statutory reserve		504,671	504,671
General reserve		9,311	9,311
Revaluation reserve		574	593
Cumulative changes in fair value		(1,190)	(42,855)
Accumulated losses		(391,423)	(426,926)
Total shareholders' equity		2,606,609	2,529,460
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		19,590,082	20,511,017

These condensed interim financial statements were approved by the Board of Directors on 30th July 2019 and signed on its behalf by:

Ahmad AbuEideh
Chief Executive Officer



The notes on pages 8 to 25 form an integral part of the condensed interim financial statements. The independent auditor's report on review of the Bank's condensed interim financial statements 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 2019 (Unaudited)

		<i>Three month period ended 30 June (Unaudited)</i>		<i>Six month period ended 30 June (Unaudited)</i>	
	<i>Notes</i>	<i>2019 AED'000</i>	<i>2018 AED'000</i>	<i>2019 AED'000</i>	<i>2018 AED'000</i>
Interest income		231,046	215,178	462,338	432,388
Income from Islamic financing products		8,001	9,917	17,572	19,617
Total interest income and income from Islamic financing products		239,047	225,095	479,910	452,005
Interest expense		(91,009)	(69,215)	(182,733)	(137,640)
Distribution to depositors – Islamic products		(47,882)	(31,331)	(91,839)	(61,457)
Total interest expense and distribution to depositors		(138,891)	(100,546)	(274,572)	(199,097)
Net interest income and income from Islamic products net of distribution to depositors		100,156	124,549	205,338	252,908
Net fees and commission income		15,789	22,322	41,438	41,436
Foreign exchange income		7,825	7,052	14,622	15,478
Other operating income		5,923	13,353	20,343	31,408
Total operating income		129,693	167,276	281,741	341,230
Employee benefit expenses		(48,765)	(57,061)	(98,176)	(111,980)
Other operating expenses		(18,121)	(20,456)	(38,938)	(41,016)
Depreciation		(10,236)	(6,840)	(21,071)	(15,071)
Total operating expenses		(77,122)	(84,357)	(158,185)	(168,067)
Profit before impairment loss		52,571	82,919	123,556	173,163
Net impairment loss	7	(38,445)	(38,323)	(87,850)	(92,622)
Net profit for the period		14,126	44,596	35,706	80,541
Earnings per share (basic and diluted in AED)	4	0.01	0.03	0.02	0.05

The notes on pages 8 to 25 form an integral part of the condensed interim financial statements. The independent auditor's report on review of the Bank's condensed interim financial statements 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 2019 (Unaudited)

	<i>Three month period ended 30 June (Unaudited)</i>		<i>Six month period ended 30 June (Unaudited)</i>	
	2019	2018	2019	2018
	AED'000	AED'000	AED'000	AED'000
Net profit for the period	14,126	44,596	35,706	80,541
Other comprehensive income / (loss)				
<i>Items that are or may be reclassified subsequently to the consolidated statement of income</i>				
Fair value through other comprehensive income (FVOCI):				
Net changes in fair value of FVOCI investments	83,995	(42,709)	166,190	(114,373)
FVOCI – reclassified to statement of income	(52,156)	(3,876)	(124,525)	30,184
Other comprehensive income / (loss) for the period	31,839	(46,585)	41,665	(84,189)
Total comprehensive income / (loss) for the period	45,965	(1,989)	77,371	(3,648)

United Arab Bank P.J.S.C.

INTERIM STATEMENT OF CASH FLOWS

For the six months period ended 30 June 2019 (Unaudited)

	<i>Six months period ended 30 June (unaudited)</i>	
	<i>2019 AED'000</i>	<i>2018 AED'000</i>
Operating activities		
Net profit for the period	35,706	80,541
Adjustments for:		
Depreciation	21,071	15,071
Loss on write off of property and equipment	1,050	2,546
Net impairment losses	87,850	92,622
Amortisation of premium paid on investments	13,349	17,562
Net fair value loss / (gain) on disposal of investments and Islamic instruments	6,389	(474)
Unrealised loss on investments	36	206
Insurance proceeds	2	-
Operating cash flows before movements in working capital	165,453	208,074
Changes in operating assets and liabilities:		
Loans and advances and Islamic financing receivables	295,378	28,868
Balances with the UAE Central Bank maturing after three months	91,301	(158,314)
Cash margin held by counterparty banks against borrowings and derivative transactions	(104,659)	18,104
Other assets	80,013	237,639
Due to banks maturing after three months	(535,875)	460,488
Customer deposits and Islamic customer deposits	(1,134,040)	(1,178,808)
Other liabilities	(27,878)	(297,398)
Net cash used in operating activities	(1,170,307)	(681,347)
Investing activities		
Purchase of property, equipment and capital work-in-progress	(14,683)	(9,944)
Proceeds from closure of subsidiary	-	10,238
Purchase of investments	(783,425)	(1,442,084)
Proceeds from redemption / sale of investments	907,944	918,818
Net cash generated from / (used in) investing activities	109,836	(522,972)
Financing activities		
Increase in ordinary share capital on rights issue	-	687,517
Rights issue costs	(222)	(1,878)
Medium term borrowings	532,513	-
Net cash generated from financing activities	532,291	685,639
Net decrease in cash and cash equivalents	(528,180)	(518,680)
Cash and cash equivalents at 1 January	741,913	1,036,067
Cash and cash equivalents at 30 June	213,733	517,387
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	899,516	750,261
Due from other banks	134,358	380,842
Due to banks	(820,141)	(613,716)
	213,733	517,387

The notes on pages 8 to 25 form an integral part of the condensed interim financial statements. The independent auditor's report on review of the Bank's condensed interim financial statements 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 2019 (Unaudited)

	Share capital AED'000	Special reserve AED'000	Statutory reserve AED'000	General reserve AED'000	Revaluation reserve AED'000	Changes in fair value AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2019 (audited)	2,062,550	422,116	504,671	9,311	593	(42,855)	(426,926)	2,529,460
Profit for the period	-	-	-	-	-	-	35,706	35,706
Other comprehensive income for the period	-	-	-	-	-	41,665	-	41,665
Total comprehensive income for the period	-	-	-	-	-	41,665	35,706	77,371
Rights issue cost	-	-	-	-	-	-	(222)	(222)
Depreciation transfer for land and buildings	-	-	-	-	(19)	-	19	-
At 30 June 2019 (unaudited)	2,062,550	422,116	504,671	9,311	574	(1,190)	(391,423)	2,606,609
At 1 January 2018 (audited)	1,375,033	414,393	496,948	9,311	632	22,253	(153,940)	2,164,630
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	-	-	15,912	(330,119)	(314,207)
Restated balance at 1 January 2018	1,375,033	414,393	496,948	9,311	632	38,165	(484,059)	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	-	-	-	-	-	(84,189)	80,541	(3,648)
Share capital rights issue	687,517	-	-	-	-	-	-	687,517
Rights issue cost	-	-	-	-	-	-	(1,878)	(1,878)
Depreciation transfer for land and buildings	-	-	-	-	(16)	-	16	-
At 30 June 2018 (unaudited)	2,062,550	414,393	496,948	9,311	616	(46,024)	(405,380)	2,532,414

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 statements for the six months period ended 30 June 2019 and the comparative financial information comprise the results of the Bank on a standalone basis. The former subsidiary company, Al Sadarah Investment Company was wound up in January 2018.

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 statements are consistent with those followed in the preparation of the Bank’s annual financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Bank adopted IFRS 16 retrospectively from 1 January 2019 but has not restated the comparative for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules did not have a material impact on the opening balance sheet as on 1 January 2019.

The effect of the adoption of IFRS 16 on the statement of financial position as at 30 June 2019 is as follows:

	<i>2019</i>
	<i>AED’000</i>
Assets	
Right-of-use assets	32,574
Less: Accumulated depreciation	(7,666)
Right-of-use assets (net)	24,908
Liabilities	
Lease liabilities	22,452

2. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS (continued)**2.1 Changes in accounting policies (continued)**

Impact on the statement of income for the six months period ended 30 June 2019 is as follows:

	2019
	AED'000
Depreciation expense	(7,666)
Rent expense	4,166
Operating expenses	(3,500)
Finance costs	(302)
Profit for the period	(3,802)

There is no material impact on other comprehensive income and the basic and diluted EPS.

a) Nature of the effect of adoption of IFRS 16

The Bank has lease contracts for its branches. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in the statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under prepayments and other liabilities, respectively.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Bank recognized lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Set out below are the new accounting policies of the Bank upon adoption of IFRS 16:

Right-of-use assets:

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities:

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets:

The Bank applies the short-term lease recognition exemption to its short-term leases of ATM's (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) together with the exemption of low value. Lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

2. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS (continued)

2.1 Changes in accounting policies (continued)

b) Summary of new accounting policies

The Bank has the option, under some of its leases to lease the assets for additional terms. The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

2.2 Amendment to IFRS 9, Financial instruments', on prepayment features with negative compensation

The Board has issued a narrow-scope amendment to IFRS 9 to enable companies to measure at amortised cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss (FVTPL).

This amendment confirms that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

2.3 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, the condensed interim financial statements, except for IFRS 16: Leases, as mentioned above, the other 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 2018

Changes to judgements made in applying accounting policies that have most significant effects on the amounts recognized in the condensed interim financial statements of the period ended 30 June 2019 pertain to the changes introduced because of adoption of IFRS 16: Leases, which are covered in the above section.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The condensed interim financial statements 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 statements are consistent with those applied by the Bank in the annual financial statements for the year ended 31 December 2018, except for changes in accounting policies explained in Note 2.

The condensed interim financial statements 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 2018. In addition, results for the six months period ended 30 June 2019 are not necessarily indicative of the results that may be expected for the full financial year ending 31 December 2019.

In preparing this condensed interim financial statements, 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 2018 except for the new judgements and estimates explained in Note 2.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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 2018, except for changes in accounting policies explained in Note 2.1.

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>2019</i>	<i>2018</i>
Net profit for the period (AED)	35,706,000	80,541,000
<i>Number of ordinary shares:</i>		
Ordinary shares of AED 1 each at the beginning of the year	2,062,550,649	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	2,062,550,649
<i>Weighted average number of ordinary shares:</i>		
Issued ordinary shares at 1 January	2,062,550,649	1,375,033,766
Effect of bonus shares	-	196,433,395
Deemed number of shares in issue before rights issue	2,062,550,649	1,571,467,161
Effect of rights issue of 491,083,488 shares weighted for 4 months	-	163,694,496
Weighted average number of shares of AED 1 each outstanding for the period	2,062,550,649	1,735,161,657
Basic earnings per share (AED)	0.02	0.05

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 (AED 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.

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months period ended 30 June 2019 (Unaudited)

5 CASH AND BALANCES WITH UAE CENTRAL BANK

	<i>Unaudited</i> 30 June 2019 AED'000	<i>Audited</i> 31 December 2018 AED'000
Cash on hand	84,929	98,468
Balances with UAE Central Bank:		
Clearing accounts	314,588	264,047
Certificate of deposits	650,000	900,000
Reserve requirements	636,951	628,252
	<u>1,686,468</u>	<u>1,890,767</u>

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. The level of reserve required changes every month in accordance with the UAE Central Bank directives.

6 DUE FROM OTHER BANKS

	<i>Unaudited</i> 30 June 2019 AED'000	<i>Audited</i> 31 December 2018 AED'000
Demand deposits	246,986	116,197
Term deposits	-	403,975
	<u>246,986</u>	<u>520,172</u>

Due from other banks include AED 163,384,000 (31 December 2018: AED 98,787,000) placed with foreign banks outside the UAE. AED 112,628,000 (31 December 2018: AED 7,969,000) is held as margin for derivative transactions.

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

	<i>Stage 1</i> AED'000	<i>Stage 2</i> AED'000	<i>Stage 3</i> AED'000	<i>Total</i> AED'000
High	177,830	-	-	177,830
Standard	69,156	-	-	69,156
As at 30 June 2019 (unaudited)	<u>246,986</u>	<u>-</u>	<u>-</u>	<u>246,986</u>

	<i>Stage 1</i> AED'000	<i>Stage 2</i> AED'000	<i>Stage 3</i> AED'000	<i>Total</i> AED'000
High	70,037	-	-	70,037
Standard	450,135	-	-	450,135
As at 31 December 2018 (audited)	<u>520,172</u>	<u>-</u>	<u>-</u>	<u>520,172</u>

The Bank holds a stage 1 expected credit loss allowance of AED 50,006 (31 December 2018: AED 37,000) on its due from other banks.

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months period ended 30 June 2019 (Unaudited)

7 LOANS AND ADVANCES AND ISLAMIC FINANCING RECEIVABLES

	<i>Unaudited 30 June 2019 AED'000</i>	<i>Audited 31 December 2018 AED'000</i>
The composition of the loans and advances portfolio is as follows:		
Overdrafts	1,651,445	1,728,608
Term loans (medium and short term)*	10,538,689	10,652,535
Loans against trust receipts	842,189	1,027,101
Bills discounted	259,432	245,431
Other cash advances	52,147	51,184
Bills drawn under letters of credit	200,558	197,955
Gross amount of loans and advances	13,544,460	13,902,814
Less: Provision for impairment and ECL on loans and advances	(1,165,328)	(1,143,713)
Net loans and advances	12,379,132	12,759,101

* Includes retail loans of AED 3,003,864,000 (2018: AED 3,059,763,000)

At 30 June 2019, the gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance amounted to AED 1,244,655,000 (31 December 2018: AED 1,250,603,000).

Grading of gross balances of loans and advances along with stages

	<i>Stage 1 AED'000</i>	<i>Stage 2 AED'000</i>	<i>Stage 3 AED'000</i>	<i>Total AED'000</i>
High	58,681	-	-	58,681
Standard	9,951,522	783,407	16,957	10,751,886
Substandard	107,737	1,372,307	9,194	1,489,238
Default	-	-	1,244,655	1,244,655
Total gross carrying amount	10,117,940	2,155,714	1,270,806	13,544,460
Expected credit loss	(59,838)	(310,637)	(794,853)	(1,165,328)
As at 30 June 2019 (unaudited)	10,058,102	1,845,077	475,953	12,379,132

	<i>Stage 1 AED'000</i>	<i>Stage 2 AED'000</i>	<i>Stage 3 AED'000</i>	<i>Total AED'000</i>
High	117,415	29	-	117,444
Standard	10,006,840	854,973	28,752	10,890,565
Substandard	190,214	1,449,695	4,293	1,644,202
Default	-	-	1,250,603	1,250,603
Total gross carrying amount	10,314,469	2,304,697	1,283,648	13,902,814
Expected credit loss	(60,036)	(348,631)	(735,046)	(1,143,713)
As at 31 December 2018 (audited)	10,254,433	1,956,066	548,602	12,759,101

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 2018	60,036	348,631	735,046	1,143,713
Changes due to provisions recognized in the opening balance that have:				
Transferred to 12 month ECL	440	(440)	-	-
Transferred to lifetime ECL not credit impaired	(14,563)	14,563	-	-
Transferred to lifetime ECL credit-impaired	-	(29,367)	29,367	-
Transferred to lifetime ECL credit-impaired on commitments and contingent liabilities	-	-	(16,886)	(16,886)
Charge to income statement	13,925	(22,750)	98,317	89,492
Write-offs	-	-	(50,991)	(50,991)
As at 30 June 2019 (unaudited)	59,838	310,637	794,853	1,165,328
	<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 2018	75,835	445,437	758,690	1,279,962
Changes due to provisions recognized in the opening balance that have:				
Transferred to 12 month ECL	83	(83)	-	-
Transferred to lifetime ECL not credit impaired	(6,049)	6,049	-	-
Transferred to lifetime ECL credit-impaired	-	(133,720)	133,720	-
Charge to income statement	(9,833)	30,948	262,433	283,548
Write-offs	-	-	(419,797)	(419,797)
As at 31 December 2018 (audited)	60,036	348,631	735,046	1,143,713

Provision for credit losses of financial and non-financial assets recognized in the statement of income is as follows:

	<i>Unaudited</i> <i>30 June</i> <i>2019</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2018</i> <i>AED'000</i>
Net impairment of financial and non-financial assets	94,501	267,120
Recovery on bad debts written off	(6,651)	(25,225)
Provision for credit losses	87,850	241,895

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8 INVESTMENTS AND ISLAMIC INSTRUMENTS

	<i>Unaudited</i> 30 June 2019			<i>Audited</i> 31 December 2018		
	<i>Quoted</i> <i>AED'000</i>	<i>Unquoted</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>	<i>Quoted</i> <i>AED'000</i>	<i>Unquoted</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Debt:						
<i>FVTPL</i>						
Local	-	-	-	-	-	-
Overseas	183,753	-	183,753	190,969	-	190,969
<i>FVOCI</i>						
Local	2,945,061	-	2,945,061	2,988,555	-	2,988,555
Overseas	670,258	-	670,258	596,347	-	596,347
<i>Amortised cost</i>						
Local	48,761	-	48,761	48,852	-	48,852
Total debt securities	3,847,833	-	3,847,833	3,824,723	-	3,824,723
Equity:						
<i>FVOCI</i>						
Local	-	467	467	-	467	467
Overseas	288	76	364	291	76	367
Total equities	288	543	831	291	543	834
Total investments	3,848,121	543	3,848,664	3,825,014	543	3,825,557
Expected credit loss			(1,610)			(1,423)
Net investments			3,847,054			3,824,134

Investment securities include AED 183,753,000 (31 December 2018: AED 678,372,000) pledged under repurchase agreements with the lenders.

8 INVESTMENTS AND ISLAMIC INSTRUMENTS (continued)

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

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
High	1,580,736	-	-	1,580,736
Standard	2,083,344	-	-	2,083,344
Total gross carrying amount	3,664,080	-	-	3,664,080
Expected credit loss	(22,015)	-	-	(22,015)
As at 30 June 2019 (unaudited)	3,642,065	-	-	3,642,065

	<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	2,360,964	-	-	2,360,964
Standard	1,272,790	-	-	1,272,790
Total gross carrying amount	3,633,754	-	-	3,633,754
Expected credit loss	(20,929)	-	-	(20,929)
As at 31 December 2018 (audited)	3,612,825	-	-	3,612,825

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 2018	20,929	-	-	20,929
Charge to income statement	1,086	-	-	1,086
As at 30 June 2019 (unaudited)	22,015	-	-	22,015

	<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 2018	15,718	431	-	16,149
Changes due to financial assets recognized in the opening balance that have:				
Transferred to 12 month ECL	431	(431)	-	-
Charge to income statement	4,780	-	-	4,780
As at 31 December 2018 (audited)	20,929	-	-	20,929

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9 DUE TO BANKS

	<i>Unaudited</i> <i>30 June</i> <i>2019</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2018</i> <i>AED'000</i>
Demand deposits	8,329	30,168
Term deposits	1,644,580	2,121,280
	<u>1,652,909</u>	<u>2,151,448</u>

Due to banks include AED 1,469,000 (31 December 2018: AED 18,495,000) held as margin for derivative transactions.

Term deposits include borrowings through repurchase agreements of AED 183,625,000 (31 December 2018: AED 550,875,000).

10 CUSTOMER DEPOSITS AND ISLAMIC CUSTOMER DEPOSITS

	<i>Unaudited</i> <i>30 June</i> <i>2019</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2018</i> <i>AED'000</i>
Term deposits	9,520,473	10,005,532
Current accounts	3,060,654	3,630,325
Call and savings accounts	323,792	403,102
	<u>12,904,919</u>	<u>14,038,959</u>

11 MEDIUM TERM BORROWINGS

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

	<i>Unaudited</i> <i>30 June</i> <i>2019</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2018</i> <i>AED'000</i>
Balance as at 1 January	954,850	844,629
New borrowings	807,951	679,413
Repayments	(275,438)	(569,192)
	<u>1,487,363</u>	<u>954,850</u>

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

Maturity	Currency	Fixed / Floating	Interest Rate	<i>Unaudited</i> <i>30 June</i> <i>2019</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2018</i> <i>AED'000</i>
2019	USD	Floating	LIBOR + Margin	-	275,437
2020	USD	Floating	LIBOR + Margin	771,226	679,413
2021	USD	Floating	LIBOR + Margin	716,137	
				<u>1,487,363</u>	<u>954,850</u>

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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:

	<i>Unaudited</i> 30 June 2019 AED'000	<i>Audited</i> 31 December 2018 AED'000
<i>Contingent liabilities</i>		
Letters of credit	367,471	404,649
Guarantees	3,299,239	3,434,351
	<u>3,666,710</u>	<u>3,839,000</u>
<i>Commitments</i>		
Undrawn loan commitments	<u>2,489,684</u>	<u>2,563,401</u>

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

Grading of gross balances of commitments and 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	9,615	321	-	9,936
Standard	2,835,000	347,820	-	3,182,820
Substandard	39,283	388,856	-	428,139
Default	-	-	45,815	45,815
Total gross carrying amount	<u>2,883,898</u>	<u>736,997</u>	<u>45,815</u>	<u>3,666,710</u>
Expected credit loss	<u>(12,439)</u>	<u>(33,730)</u>	<u>(16,886)</u>	<u>(63,055)</u>
As at 30 June 2019 (unaudited)	<u><u>2,871,459</u></u>	<u><u>703,267</u></u>	<u><u>28,929</u></u>	<u><u>3,603,655</u></u>
	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
High	15,785	162	-	15,947
Standard	2,944,967	571,632	-	3,516,599
Substandard	10,150	250,922	-	261,072
Default	-	-	45,382	45,382
Total gross carrying amount	<u>2,970,902</u>	<u>822,716</u>	<u>45,382</u>	<u>3,839,000</u>
Expected credit loss	<u>(12,899)</u>	<u>(30,058)</u>	<u>-</u>	<u>(42,957)</u>
As at 31 December 2018 (audited)	<u><u>2,958,003</u></u>	<u><u>792,658</u></u>	<u><u>45,382</u></u>	<u><u>3,796,043</u></u>

12 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 2018	12,899	30,060	-	42,959
Changes due to provisions recognized in the opening balance that have:				
Transferred to 12 month ECL	105	(105)	-	-
Transferred to lifetime ECL not credit impaired	(1,538)	1,538	-	-
Transferred from lifetime ECL credit-impaired on loans and advances	-	-	16,886	16,886
Charge to income statement	973	2,237	-	3,210
As at 30 June 2019 (unaudited)	12,439	33,730	16,886	63,055
	<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 2018	11,486	35,805	16,876	64,167
Changes due to provisions recognized in the opening balance that have:				
Transferred to lifetime ECL not credit impaired	(587)	587	-	-
Charge to income statement	2,000	(6,332)	(16,876)	(21,208)
As at 31 December 2018 (audited)	12,899	30,060	-	42,959

13 DIVIDENDS

At the Annual General Meeting of the shareholders held on 25 March 2019, no cash or scrip dividend was proposed or subsequently approved for the year ended 31 December 2018 (2017: Nil).

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14 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 - Previously included the non-core portfolio of SME and Personal Loans to Self-Employed businesses which have now been de-leveraged / discontinued with the remaining insignificant balances having been integrated back into the core business segments

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 months period ended 30 June 2019 is as follows:

	<i>Corporate banking AED'000</i>	<i>Retail banking AED'000</i>	<i>Treasury AED'000</i>	<i>Total AED'000</i>
Net interest income and income from Islamic products net of distribution to depositors	115,724	44,200	45,414	205,338
Other operating income	55,552	7,214	13,637	76,403
Operating expenses	(77,802)	(53,608)	(26,775)	(158,185)
Net impairment losses	(71,328)	(15,424)	(1,098)	(87,850)
Profit / (loss) for the period	<u>22,146</u>	<u>(17,618)</u>	<u>31,178</u>	<u>35,706</u>
Capital expenditure - Property and equipment	<u>7,808</u>	<u>2,271</u>	<u>4,604</u>	<u>14,683</u>
At 30 June 2019				
Segment assets	<u>10,661,627</u>	<u>3,100,726</u>	<u>5,827,729</u>	<u>19,590,082</u>
Segment liabilities	<u>10,859,763</u>	<u>2,826,028</u>	<u>3,297,682</u>	<u>16,983,473</u>

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For the six months period ended 30 June 2019 (Unaudited)

14 SEGMENTAL INFORMATION (continued)

Segmental information for the six months period ended 30 June 2018 was as follows:

	<i>Corporate banking AED'000</i>	<i>Retail banking AED'000</i>	<i>Treasury AED'000</i>	<i>Others AED'000</i>	<i>Total AED'000</i>
Net interest income and income from Islamic products net of distribution to depositors	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/(loss) for the period	<u>50,986</u>	<u>(1,547)</u>	<u>29,421</u>	<u>1,681</u>	<u>80,541</u>
Capital expenditure - Property and equipment	<u>5,469</u>	<u>3,381</u>	<u>895</u>	<u>199</u>	<u>9,944</u>
At 30 June 2018					
Segment assets	<u>10,901,727</u>	<u>3,126,455</u>	<u>6,028,651</u>	<u>123,200</u>	<u>20,180,033</u>
Segment liabilities	<u>11,528,804</u>	<u>2,991,052</u>	<u>2,971,263</u>	<u>156,500</u>	<u>17,647,619</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.

15 RELATED PARTY TRANSACTIONS

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

The significant balances outstanding are as follows:

	<i>Unaudited</i> <i>30 June</i> <i>2019</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2018</i> <i>AED'000</i>
<i>Shareholders:</i>		
Due from banks	1,344	1,330
Due to banks	3,546	3,816
Medium term borrowings	165,254	165,263
Commitments and contingencies	5,285	5,310
<i>Directors:</i>		
Loans and advances	119,422	215,452
Customer deposits	4,117	4,699
Commitments and contingencies	45	45
<i>Other related entities of shareholders and directors:</i>		
Loans and advances	346,214	292,745
Investments	64,660	70,070
Due from banks	32	10
Due to other banks	60	177
Customer deposits	136,053	161,711
Commitments and contingencies	179,532	216,162

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For the six months period ended 30 June 2019 (Unaudited)

15 RELATED PARTY TRANSACTIONS (continued)

	<i>Unaudited</i> 30 June 2019 AED'000	<i>Audited</i> 31 December 2018 AED'000
<i>Key management personnel of the Bank:</i>		
Loans and advances	2,415	2,086
Customers' deposits	2,402	2,848
<i>Shareholders, directors, their related entities and key management personnel:</i>		
Accrued interest income	1,403	7,713
Accrued interest expense	2,700	2,240

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</i> <i>period ended 30 June</i> 2019 AED'000	2018 AED'000
<i>Shareholders, directors and their related entities</i>		
Interest income	18,374	19,162
Interest expense	4,514	2,654
Gain from sale of investments	250	-
Purchase of investments	7,079	-
Sale of investments	14,509	-

15 RELATED PARTY TRANSACTIONS (continued)

Key management personnel

	<i>Unaudited six months period ended 30 June</i>	
	2019	2018
Number of key management personnel	10	9
	AED'000	AED'000
Salaries and other short term benefits	6,979	10,895
Employees' end of service benefits	654	738
Total compensation to key management personnel	7,633	11,633
Interest income	42	56
Interest expense	13	18

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. For the six months period ended 30 June 2019, the Bank has not recorded any impairment on amounts owed by related parties (30 June 2018: Nil).

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 2019 amounted to AED 2,332,000 (30 June 2018: AED 1,375,000). The property rentals are negotiated each year at market rates.

16 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>
30 June 2019				
Investments	3,799,360	-	543	3,799,903
Derivative assets	-	47,221	-	47,221
	<u>3,799,360</u>	<u>47,221</u>	<u>543</u>	<u>3,847,124</u>
Derivative liabilities	-	157,409	-	157,409
31 December 2018				
Investments	3,776,162	-	543	3,776,705
Derivative assets	-	83,636	-	83,636
	<u>3,776,162</u>	<u>83,636</u>	<u>543</u>	<u>3,860,341</u>
Derivative liabilities	-	64,088	-	64,088

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) 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.

17 CAPITAL ADEQUACY RATIO

	<i>Unaudited</i> <i>30 June</i> <i>2019</i>	<i>Audited</i> <i>31 December</i> <i>2018</i>
Common equity tier 1 ratio	15.4%	14.6%
Tier 1 capital ratio	15.4%	14.6%
Capital adequacy ratio	16.5%	15.8%