

United Arab Bank P.J.S.C.

Review report and condensed interim financial statements

For the nine months period ended 30 September 2021

United Arab Bank P.J.S.C.

**Review report and condensed interim financial statements
For the nine months period ended 30 September 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 interim condensed financial statements of United Arab Bank P.J.S.C. (the "Bank"), which comprise the interim statement of financial position as at 30 September 2021 and the related interim statements of income and comprehensive income for the three month and nine month period then ended, statements of cash flows and changes in equity for the nine month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard IAS 34, Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed 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

8 November 2021

Sharjah, United Arab Emirates

United Arab Bank P.J.S.C.

INTERIM STATEMENT OF FINANCIAL POSITION

For the nine months period ended 30 September 2021 (Unaudited)

		<i>Unaudited</i> 30 September 2021 AED'000	<i>Audited</i> 31 December 2020 AED'000
	<i>Note</i>		
Assets			
Cash and balances with UAE Central Bank	5	1,420,084	1,406,322
Due from other banks	6	326,129	296,525
Loans and advances and Islamic financing receivables	7	8,035,406	9,013,639
Investments and Islamic instruments	8	3,581,945	3,281,726
Property, equipment and capital work-in-progress		304,046	327,790
Other assets		599,089	523,147
TOTAL ASSETS		14,266,699	14,849,149
Liabilities and shareholders' equity			
Liabilities			
Due to banks	9	1,702,173	1,233,470
Customer deposits and Islamic customer deposits	10	10,328,330	11,246,835
Other liabilities		737,135	914,301
TOTAL LIABILITIES		12,767,638	13,394,606
Shareholders' equity			
Share capital	4	2,062,550	2,062,550
Statutory reserve		28,924	28,924
General reserve		9,311	9,311
Revaluation reserve		-	517
Cumulative changes in fair value		20,275	20,498
Accumulated losses		(621,999)	(667,257)
TOTAL SHAREHOLDERS' EQUITY		1,499,061	1,454,543
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		14,266,699	14,849,149

This condensed interim financial information was approved by the Board of Directors on 08 November 2021 and signed on its behalf by:

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

.....
Ahmad Abu Eiden
Chief Executive Officer

United Arab Bank P.J.S.C.

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the nine months period ended 30 September 2021 (Unaudited)

	Notes	Three month period ended 30 September (Unaudited)		Nine month period ended 30 September (Unaudited)	
		2021 AED'000	2020 AED'000	2021 AED'000	2020 AED'000
Interest income		110,480	137,909	349,347	474,927
Income from Islamic financing products		6,423	7,897	19,877	26,538
Total interest income and income from Islamic financing products		116,903	145,806	369,224	501,465
Interest expense		(35,297)	(67,163)	(114,917)	(221,549)
Distribution to depositors – Islamic products		(9,872)	(17,522)	(39,300)	(55,426)
Total interest expense and distribution to depositors		(45,169)	(84,685)	(154,217)	(276,975)
Net interest income and income from Islamic products net of distribution to depositors		71,734	61,121	215,007	224,490
Net fees and commission income		10,444	11,381	34,578	30,858
Foreign exchange income		4,404	4,393	13,401	12,985
Other operating income		13,602	6,629	73,564	34,170
Total operating income		100,184	83,524	336,550	302,503
Employee benefit expenses		(35,024)	(33,577)	(105,656)	(114,096)
Other operating expenses		(19,856)	(26,156)	(55,390)	(61,539)
Depreciation		(5,700)	(7,382)	(19,273)	(23,001)
Total operating expenses		(60,580)	(67,115)	(180,319)	(198,636)
Profit before impairment loss		39,604	16,409	156,231	103,867
Net impairment loss	12	(21,785)	(172,375)	(111,490)	(468,778)
Net profit / (loss) for the period		17,819	(155,966)	44,741	(364,911)
Earnings per share (basic and diluted in AED)	4	0.01	(0.08)	0.02	(0.18)

The notes on pages 8 to 29 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 nine months period ended 30 September 2021 (Unaudited)

	<i>Three month period ended 30 September (Unaudited)</i>		<i>Nine month period ended 30 September (Unaudited)</i>	
	2021 <i>AED'000</i>	2020 <i>AED'000</i>	2021 <i>AED'000</i>	2020 <i>AED'000</i>
Net profit / (loss) for the period	17,819	(155,966)	44,741	(364,911)
Other comprehensive income / (loss)				
<i>Items that are or may be reclassified subsequently to the statement of income</i>				
Fair value through other comprehensive income (FVOCI):				
Net change in fair value during the period	(29,420)	39,274	(45,045)	3,475
Change in allowance for expected credit losses	332	901	4,645	(1,241)
Reclassified to the income statement	13,667	11,086	40,177	(129,008)
Other comprehensive (loss) / income for the period	(15,421)	51,261	(223)	(126,774)
Total comprehensive income / (loss) for the period	2,398	(104,705)	44,518	(491,685)

United Arab Bank P.J.S.C.

INTERIM STATEMENT OF CASH FLOWS

For the nine months period ended 30 September 2021 (Unaudited)

	<i>Nine months period ended 30 September (unaudited)</i>	
	<i>2021 AED'000</i>	<i>2020 AED'000</i>
Operating activities		
Net profit / (loss) for the period	44,741	(364,911)
Adjustments for:		
Depreciation	19,273	23,001
Loss on write off of property, equipment and capital work-in-progress	2,589	2,720
Gain on sale of property and equipment	(2,904)	(90)
Gain on sale of assets acquired in settlement of debt	(5,945)	-
Impairment on assets acquired in settlement of debt	12 3,562	-
Net credit impairment losses	12 107,928	468,778
Amortisation of premium paid on investments	10,637	17,199
Net fair value gain on disposal of investments and Islamic instruments	(40,796)	(4,109)
Unrealised loss on investments	341	192
Insurance proceeds	(167)	-
Operating cash flows before movements in working capital	<u>139,259</u>	<u>142,780</u>
Changes in operating assets and liabilities:		
Loans and advances and Islamic financing receivables	855,567	1,114,357
Balances with the UAE Central Bank maturing after three months	10,696	509,691
Cash margin held by counterparty banks against borrowings and derivative transactions	79,954	(118,438)
Other assets	(91,342)	81,500
Due to banks maturing after three months	327,851	235,610
Customer deposits and Islamic customer deposits	10 (918,505)	1,418,092
Other liabilities	(79,210)	(207,995)
Net cash generated from operating activities	<u>324,270</u>	<u>3,175,597</u>
Investing activities		
Purchase of property, equipment and capital work-in-progress	(9,039)	(14,736)
Purchase of investments	(1,260,973)	(44,546)
Proceeds from redemption / sale of investments	907,131	131,374
Proceeds from sale of property and equipment	7,500	90
Proceeds from sale of assets acquired in settlement of debt	24,107	-
Insurance proceeds	167	-
Net cash (used in) / generated from investing activities	<u>(331,107)</u>	<u>72,182</u>
Financing activities		
Repayment of medium term borrowings	-	(1,487,363)
Net cash used in financing activities	<u>-</u>	<u>(1,487,363)</u>
Net (decrease) / increase in cash and cash equivalents	<u>(6,837)</u>	<u>1,760,416</u>
Cash and cash equivalents as at 1 January	<u>746,707</u>	<u>1,100,098</u>
Cash and cash equivalents as at 30 September	<u><u>739,870</u></u>	<u><u>2,860,514</u></u>
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	1,145,059	2,489,935
Due from other banks	184,896	498,747
Due to banks	(590,085)	(128,168)
	<u><u>739,870</u></u>	<u><u>2,860,514</u></u>

The notes on pages 8 to 29 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 nine months period ended 30 September 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
Net profit for the period	-	-	-	-	-	-	44,741	44,741
Other comprehensive loss for the period	-	-	-	-	-	(223)	-	(223)
Total comprehensive income for the period	-	-	-	-	-	(223)	44,741	44,518
Depreciation transfer for land and buildings	-	-	-	-	(6)	-	6	-
Revaluation transfer upon sale of building	-	-	-	-	(511)	-	511	-
At 30 September 2021 (unaudited)	2,062,550	-	28,924	9,311	-	20,275	(621,999)	1,499,061
At 1 January 2020 (audited)	2,062,550	422,116	504,671	9,311	555	58,974	(897,863)	2,160,314
Net loss for the period	-	-	-	-	-	-	(364,911)	(364,911)
Other comprehensive loss for the period	-	-	-	-	-	(126,774)	-	(126,774)
Total comprehensive income for the period	-	-	-	-	-	(126,774)	(364,911)	(491,685)
Accumulated losses offset against reserves (note 4)	-	(422,116)	(475,747)	-	-	-	897,863	-
Depreciation transfer for land and buildings	-	-	-	-	(29)	-	29	-
At 30 September 2020 (unaudited)	2,062,550	-	28,924	9,311	526	(67,800)	(364,882)	1,668,629

The notes on pages 8 to 29 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 is in the process of reviewing the new provisions and will apply the requirements thereof no later than one year from the date on which the amendments came into effect.

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

Title	Effective for annual period beginning on or after
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2021
Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2021

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

IBOR Reform Phase 2 provides temporary reliefs that allow the Bank’s hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable.

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.

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

2.1 Changes in accounting policies (continued)

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 transition away from the IBORs covers most of the business units and support functions of the Bank.

The Bank has set up a methodical framework to monitor the progress of transition from IBORs to new benchmark rates by reviewing its exposure and contracts on a regular basis. The Bank considers that a contract is not yet transitioned to an alternative benchmark rate when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR. The Bank holds derivatives for trading and risk management purposes. Derivatives held for risk management purposes are designated in hedging relationships. The interest rate swaps have floating legs that are indexed to various IBORs. The Bank’s derivative instruments are governed by International Swaps and Derivatives Association (ISDA) 2006 definitions.

The Bank’s hedged items and hedging instruments continue to be indexed to IBOR benchmark rates, which are mainly USD 3 months / 6 months LIBOR Index. These IBOR benchmark rates are quoted regularly and IBOR cash flows are exchanged with its counterparties as usual.

The Bank’s exposure to Interest Rate Swaps designated in hedge accounting relationships at 30 September 2021 represents a nominal amount of AED 2,047,684,000. The objective of the majority of these hedges and consistent with the overall interest rate risk management strategy of the Bank, is to reduce fluctuations from Interest rate risk. The assessment of IBOR transition is expected to be completed by the year end.

There are no other applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not yet effective for the first time for the Bank’s financial year beginning on 1 January 2021 that would be expected to have a material impact on the condensed interim financial information of the Bank.

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

2.2 Key accounting estimates and judgments

The preparation of the condensed interim financial information 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 information 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 nine months period ended 30 September 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. The Bank has returned to profitability during the nine month period. The management also believes that it has adequate liquidity and funding in order to meet its cash flow requirements as and when these fall due. Moreover, the Bank continues to manage its capital to ensure that it will be able to continue as a going concern while upholding the interest of its stakeholders. As such, 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. 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 nine months period ended 30 September</i>	
	2021	2020
	AED	AED
Net profit / (loss) for the period	44,741,000	(364,911,000)
<i>Weighted average number of ordinary shares:</i> Weighted average number of shares of AED 1 each outstanding for the period	2,062,550,649	2,062,550,649
Basic earnings per share	AED 0.02	AED (0.18)

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 2021 obtained the approval of the Bank's shareholders to set off the accumulated losses as at 31 December 2020 against the Special and Statutory reserves held as at that date. Following the receipt of the regulatory consents in June 2021, the accumulated losses as at 31 December 2020 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 30 September 2021 AED'000</i>	<i>Audited 31 December 2020 AED'000</i>
Cash on hand	61,362	64,398
Balances with UAE Central Bank:		
Overnight deposit facility	800,000	850,000
Reserve requirements	558,722	491,924
	1,420,084	1,406,322

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

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

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2021 (Unaudited)

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

The reserve requirement as at 30 September 2021 amounted to AED 275,025,000 (31 December 2020: AED 285,721,000). 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> <i>30 September</i> <i>2021</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2020</i> <i>AED'000</i>
Demand deposits	226,129	296,525
Term deposits	100,000	-
	326,129	296,525

Due from other banks include AED 121,824,000 (31 December 2020: AED 127,356,000) placed with foreign banks outside the UAE. AED 141,233,000 (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	196,396	-	-	196,396
Standard	129,733	-	-	129,733
As at 30 September 2021 (unaudited)	326,129	-	-	326,129

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
High	238,080	-	-	238,080
Standard	58,445	-	-	58,445
As at 31 December 2020 (audited)	296,525	-	-	296,525

The Bank holds a stage 1 expected credit loss allowance of AED 128,600 (31 December 2020: AED 112,000) on balances due from other banks.

7 LOANS AND ADVANCES AND ISLAMIC FINANCING RECEIVABLES

	<i>Unaudited</i> 30 September <i>2021</i> AED'000	<i>Audited</i> 31 December <i>2020</i> AED'000
The composition of the loans and advances portfolio is as follows:		
Overdrafts	1,136,084	1,192,258
Term loans (medium and short term)*	7,346,228	8,676,243
Loans against trust receipts	523,071	530,210
Bills discounted	112,399	152,875
Other cash advances	44,731	51,051
Bills drawn under letters of credit	38,359	66,546
	<hr/>	<hr/>
Gross amount of loans and advances and Islamic financing receivables	9,200,872	10,669,183
Less: Provision for impairment on loans and advances and Islamic financing receivables	(1,165,466)	(1,655,544)
	<hr/>	<hr/>
Net loans and advances and Islamic financing receivables	8,035,406	9,013,639
	<hr/> <hr/>	<hr/> <hr/>

* Includes retail loans of AED 1,855,795,000 (2020: AED 2,372,456,000)

Islamic financing receivables amounting to AED 524,232,000 (31 December 2020: AED 581,777,000) recognised through the Bank's Shari'a – compliant Islamic window.

At 30 September 2021, the gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance amounted to AED 1,416,050,000 (31 December 2020: AED 1,677,199,000).

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	18,681	-	-	18,681
Standard	7,102,473	441,181	-	7,543,654
Watchlist	-	222,487	-	222,487
Default	-	-	1,416,050	1,416,050
	<hr/>	<hr/>	<hr/>	<hr/>
Total gross carrying amount	7,121,154	663,668	1,416,050	9,200,872
Expected credit loss	(140,329)	(139,638)	(885,499)	(1,165,466)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 September 2021 (unaudited)	6,980,825	524,030	530,551	8,035,406
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	<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
	<hr/>	<hr/>	<hr/>	<hr/>
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)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2020 (audited)	7,380,660	1,229,085	403,894	9,013,639
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

7 LOANS AND ADVANCES AND ISLAMIC FINANCING RECEIVABLES (continued)
Movement in the gross balances of loans and advances and Islamic financing receivables

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Gross carrying amount				
As at 31 December 2020	7,468,058	1,523,926	1,677,199	10,669,183
Net of new assets originated and assets repaid	(542,508)	(99,101)	(200,605)	(842,214)
Write-offs	-	-	(626,097)	(626,097)
Transferred from Stage 1	(135,867)	135,867	-	-
Transferred from Stage 2	331,471	(897,024)	565,553	-
Transferred from Stage 3	-	-	-	-
As at 30 September 2021	7,121,154	663,668	1,416,050	9,200,872

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

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	2,518	(2,518)	-	-
Transferred to lifetime ECL not credit impaired	(10,793)	10,793	-	-
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	61,206	8,603	55,250	125,059
Write-offs	-	-	(626,097)	(626,097)
As at 30 September 2021 (unaudited)	140,329	139,638	885,499	1,165,466

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2021 (Unaudited)

7 LOANS AND ADVANCES AND ISLAMIC FINANCING RECEIVABLES (continued)

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

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

8 INVESTMENTS AND ISLAMIC INSTRUMENTS

	<i>Unaudited</i> <i>30 September 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>
Debt:						
<i>FVTPL</i>						
Local	876	-	876	-	-	-
Overseas	13,620	-	13,620	-	-	-
<i>FVOCI</i>						
Local	2,399,495	-	2,399,495	2,473,714	-	2,473,714
Overseas	1,071,825	-	1,071,825	807,377	-	807,377
<i>Amortised cost</i>						
Local	97,691	-	97,691	-	-	-
Total debt securities	<u>3,583,507</u>	<u>-</u>	<u>3,583,507</u>	<u>3,281,091</u>	<u>-</u>	<u>3,281,091</u>
Equity:						
<i>FVOCI</i>						
Local	-	467	467	-	467	467
Overseas	140	76	216	92	76	168
Total equities	<u>140</u>	<u>543</u>	<u>683</u>	<u>92</u>	<u>543</u>	<u>635</u>
Total investments	<u>3,583,647</u>	<u>543</u>	<u>3,584,190</u>	<u>3,281,183</u>	<u>543</u>	<u>3,281,726</u>
Expected credit loss			(2,245)			-
Net investments			<u>3,581,945</u>			<u>3,281,726</u>

Included in the above are investment securities amounting to AED 276,714,000 (31 December 2020: AED 741,667,000) secured under repurchase agreement with the lenders. The Banks holds an ECL allowance of AED 1,448,000 (31 December 2020: AED 3,208,000) on these investment securities secured under repurchase agreements.

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	1,808,715	-	-	1,808,715
Standard	1,760,979	-	-	1,760,979
Total gross carrying amount	3,569,694	-	-	3,569,694
Expected credit loss	(26,661)	-	-	(26,661)
As at 30 September 2021 (unaudited)	3,543,033	-	-	3,543,033

	<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)
As at 31 December 2020 (audited)	3,261,968	-	-	3,261,968

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	6,903	-	-	6,903
As at 30 September 2021 (unaudited)	26,661	-	-	26,661

	<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 September</i> <i>2021</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2020</i> <i>AED'000</i>
Demand deposits	25,559	27,732
Term deposits	1,676,614	1,205,738
	1,702,173	1,233,470

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

Term deposits include borrowings through repurchase agreements of AED 242,161,000 (31 December 2020: AED 605,938,000).

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2021 (Unaudited)

10 CUSTOMER DEPOSITS AND ISLAMIC CUSTOMER DEPOSITS

	<i>Unaudited</i> 30 September 2021 <i>AED'000</i>	<i>Audited</i> 31 December 2020 <i>AED'000</i>
Term deposits	7,510,260	8,359,748
Current accounts	2,528,444	2,563,013
Call and savings accounts	289,626	324,074
	<u>10,328,330</u>	<u>11,246,835</u>

Customer's deposits include Islamic customer deposits amounting to AED 2,108,032,000 (31 December 2020: AED 3,390,329,000) undertaken through the Bank's Shari'a – compliant Islamic window.

11 MEDIUM TERM BORROWINGS

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

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

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 recognised in the condensed statement of income is as follows:

	<i>Nine months period ended</i> 30 September (Unaudited)	
	<i>2021</i> <i>AED'000</i>	<i>2020</i> <i>AED'000</i>
Net impairment of financial assets on:		
Loans and advances and Islamic financing receivables	136,019	473,436
Contingent liabilities	(18,139)	21,294
Due from other banks	17	22
Investments and Islamic instruments	6,903	(1,341)
Principal waivers on loans and advances and Islamic financing receivables	(20)	(70)
Recovery on bad debts written-off	(16,852)	(34,018)
Net impairment of non-financial assets	3,562	9,455
	<u>111,490</u>	<u>468,778</u>
Net impairment loss	<u>111,490</u>	<u>468,778</u>

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2021 (Unaudited)

13 COMMITMENTS AND CONTINGENT LIABILITIES

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

	<i>Unaudited</i> <i>30 September</i> <i>2021</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2020</i> <i>AED'000</i>
<i>Contingent liabilities</i>		
Letters of credit	350,951	215,578
Guarantees	2,172,304	2,527,627
	<u>2,523,255</u>	<u>2,743,205</u>
<i>Commitments</i>		
Undrawn loan commitments	2,410,595	3,098,643
	<u>2,410,595</u>	<u>3,098,643</u>

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

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	1,965,049	280,858	-	2,245,907
Watchlist	-	72,993	-	72,993
Default	-	-	199,408	199,408
	<u>1,969,996</u>	<u>353,851</u>	<u>199,408</u>	<u>2,523,255</u>
Total gross carrying amount	1,969,996	353,851	199,408	2,523,255
Expected credit loss	(27,384)	(30,656)	(36,295)	(94,335)
	<u>1,942,612</u>	<u>323,195</u>	<u>163,113</u>	<u>2,428,920</u>
As at 30 September 2021 (unaudited)	<u>1,942,612</u>	<u>323,195</u>	<u>163,113</u>	<u>2,428,920</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	16,586	-	-	16,586
Standard	1,843,736	662,643	-	2,506,379
Watchlist	-	128,978	-	128,978
Default	-	-	91,262	91,262
	<u>1,860,322</u>	<u>791,621</u>	<u>91,262</u>	<u>2,743,205</u>
Total gross carrying amount	1,860,322	791,621	91,262	2,743,205
Expected credit loss	(18,255)	(56,710)	(37,397)	(112,362)
	<u>1,842,067</u>	<u>734,911</u>	<u>53,865</u>	<u>2,630,843</u>
As at 31 December 2020 (audited)	<u>1,842,067</u>	<u>734,911</u>	<u>53,865</u>	<u>2,630,843</u>

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2021 (Unaudited)

13 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Movement in the gross balance of contingent liabilities

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Gross carrying amount				
As at 31 December 2020	1,860,322	791,621	91,262	2,743,205
<i>Changes due to financial assets recognized in the opening balance that have:</i>				
Transferred from Stage 1	(86,621)	86,621	-	-
Transferred from Stage 2	338,367	(446,587)	108,220	-
Originated / (expired) during the year	(142,073)	(77,804)	(73)	(219,950)
As at 30 September 2021	1,969,995	353,851	199,409	2,523,255
	<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	-
Originated / (expired) during the year	(465,352)	(299,817)	(4,313)	(769,482)
As at 31 December 2020	1,860,322	791,621	91,262	2,743,205

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
<i>Changes due to provisions recognized in the opening balance that have:</i>				
Transferred to 12 month ECL	5,608	(5,608)	-	-
Transferred to lifetime ECL not credit impaired	(8,809)	8,809	-	-
Transferred to lifetime ECL credit-impaired	-	-	-	-
Transfer from / (to) ECL credit-impaired on loans	-	(9,858)	(1,102)	(10,960)
Charge to income statement	12,218	(19,397)	-	(7,179)
As at 30 September 2021 (unaudited)	27,384	30,656	36,295	94,335
	<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	14,085	45,462	31,833	91,380
<i>Changes due to provisions recognized in the opening balance that have:</i>				
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	15,949	7,733	-	23,682
As at 31 December 2020 (audited)	18,367	56,710	37,397	112,474

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

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14 DIVIDENDS

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

15 SEGMENTAL INFORMATION

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

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

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

Segmental information for the nine months period ended 30 September 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	159,389	55,618	215,007
Other operating income	109,090	12,453	121,543
Operating expenses	(133,452)	(46,867)	(180,319)
Net impairment losses	(85,558)	(25,932)	(111,490)
Profit for the period	<u>49,469</u>	<u>(4,728)</u>	<u>44,741</u>
Capital expenditure - Property and equipment	<u>7,944</u>	<u>1,095</u>	<u>9,039</u>
At 30 September 2021			
Segment assets	<u>12,538,257</u>	<u>1,728,442</u>	<u>14,266,699</u>
Segment liabilities	<u>10,948,387</u>	<u>1,819,251</u>	<u>12,767,638</u>

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2021 (Unaudited)

15 SEGMENTAL INFORMATION (continued)

Segmental information for the nine months period ended 30 September 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	156,651	67,839	224,490
Other operating income	73,247	4,766	78,013
Operating expenses	(144,657)	(53,979)	(198,636)
Net impairment losses	(413,565)	(55,213)	(468,778)
Loss for the period	<u>(328,324)</u>	<u>(36,587)</u>	<u>(364,911)</u>
Capital expenditure - Property and equipment	<u>12,772</u>	<u>1,964</u>	<u>14,736</u>
At 30 September 2020			
Segment assets	<u>15,585,834</u>	<u>2,396,025</u>	<u>17,981,859</u>
Segment liabilities	<u>13,787,050</u>	<u>2,526,180</u>	<u>16,313,230</u>

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

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2021 (Unaudited)

16 RELATED PARTY TRANSACTIONS

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

The significant balances outstanding are as follows:

	<i>Unaudited</i> <i>30 September</i> <i>2021</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2020</i> <i>AED'000</i> <i>Restated</i>
<i><u>Shareholders:</u></i>		
Due from banks	<u>50</u>	<u>66</u>
Due to banks	<u>3,209</u>	<u>2,669</u>
Commitments and contingencies	<u>4,000</u>	<u>5,174</u>
<i><u>Directors:</u></i>		
Loans and advances	<u>11,379</u>	<u>6,511</u>
Customer deposits	<u>5,070</u>	<u>6,296</u>
Commitments and contingencies	<u>45</u>	<u>45</u>
<i><u>Other related entities of shareholders and directors:</u></i>		
Loans and advances	<u>170,498</u>	<u>180,167</u>
Investments	<u>-</u>	<u>64,131</u>
Due from banks	<u>11</u>	<u>29</u>
Due to other banks	<u>273</u>	<u>448</u>
Customer deposits	<u>245,884</u>	<u>243,954</u>
Commitments and contingencies	<u>104,204</u>	<u>97,881</u>
	<i>Unaudited</i> <i>30 September</i> <i>2021</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2020</i> <i>AED'000</i>
<i><u>Key management personnel of the Bank:</u></i>		
Loans and advances	<u>2,463</u>	<u>4,136</u>
Customers' deposits	<u>4,217</u>	<u>1,445</u>
<i><u>Shareholders, directors, their related entities and key management personnel:</u></i>		
Accrued interest income	<u>200</u>	<u>1,595</u>
Accrued interest expense	<u>979</u>	<u>4,204</u>

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2021 (Unaudited)

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 nine months period ended 30 September</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	7,762	15,850
Interest expense	486	3,690
Professional fees	1,775	-
Loss from sale of investments	(4,078)	-
Sale of investments	66,105	-
<i>Unaudited nine months period ended 30 September</i>		
	<i>2021</i>	<i>2020</i>
	<i>AED'000</i>	<i>AED'000</i>
Number of key management personnel	13	13
<i>AED'000</i>		
Salaries and other short term benefits	13,458	12,281
Employees' end of service benefits	903	2,113
Total compensation to key management personnel	14,361	14,394
Interest income	56	102
Interest expense	-	2
<i>Unaudited nine months period ended 30 September</i>		
	<i>2021</i>	<i>2020</i>
	<i>AED'000</i>	<i>AED'000</i>
Expected credit loss – (charge) to / release from income statement	(1,295)	(2,710)

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 nine months period ended 30 September 2021 amounted to AED 1,442,000 (30 September 2020: AED 1,214,000). The property rentals are negotiated each year at market rates.

16 RELATED PARTY TRANSACTIONS (continued)

Terms and conditions of transactions with related parties (continued)

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).

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

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Gross carrying amount				
As at 31 December 2020	167,743	23,071	-	190,814
Net of new assets originated and assets repaid	(1,477)	(4,997)	-	(6,474)
Write-offs	-	-	-	-
Transferred from Stage 1				
Transferred from Stage 2	1,951	(1,951)	-	-
Transferred from Stage 3	-	-	-	-
As at 30 September 2021	168,217	16,123	-	184,340

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

Movement in provision for impairment of related party loans and advances

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Balance as at 31 December 2020	2,118	1,854	-	3,972
<i>Changes due to provisions recognized in the opening balance that have:</i>				
Transferred to 12 month ECL	182	(182)	-	-
Charge to income statement	(61)	1,357	-	1,296
As at 30 September 2021	2,239	3,029	-	5,268

16 RELATED PARTY TRANSACTIONS (continued)**Movement in provision for impairment of related party loans and advances (continued)**

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</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> </u>	<u> </u>	<u> </u>	<u> </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>
30 September 2021				
Investments	3,485,956	-	543	3,486,499
Derivative assets	-	13,017	-	13,017
	<u>3,485,956</u>	<u>13,017</u>	<u>543</u>	<u>3,499,516</u>
Derivative liabilities	-	144,568	-	144,568
	<u>-</u>	<u>144,568</u>	<u>-</u>	<u>144,568</u>
31 December 2020				
Investments	3,281,183	-	543	3,281,726
Derivative assets	-	8,055	-	8,055
	<u>3,281,183</u>	<u>8,055</u>	<u>543</u>	<u>3,289,781</u>
Derivative liabilities	-	230,587	-	230,587
	<u>-</u>	<u>230,587</u>	<u>-</u>	<u>230,587</u>

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 September 2021 amounted to AED 95,844,000 (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.

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2021 (Unaudited)

18 DERIVATIVES

Derivatives held for risk management

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

30 September 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	9,322	(2,232)	1,854,706	767,089	1,087,617	-	-
Interest rate swaps	3,637	(3,637)	302,224	-	-	302,224	-
	<u>12,959</u>	<u>(5,869)</u>	<u>2,156,930</u>	<u>767,089</u>	<u>1,087,617</u>	<u>302,224</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 September 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
30 September 2021							
Hedge of investments	<u>58</u>	<u>(138,699)</u>	<u>2,047,684</u>	<u>-</u>	<u>202,722</u>	<u>1,181,592</u>	<u>663,370</u>
31 December 2020							
Hedge of investments	<u>-</u>	<u>(226,186)</u>	<u>2,114,107</u>	<u>-</u>	<u>55,822</u>	<u>1,099,375</u>	<u>958,910</u>

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 2,195,640,000 (2020: AED 2,311,164,000). These hedged items comprise of debt instruments which are held as FVOCI.

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

	30 September 2021		30 September 2020	
	Change in value AED'000	Effectiveness recognised in profit and loss AED'000	Change in value AED'000	Effectiveness recognised in profit and loss AED'000
On hedging instruments	87,430	6,207	(130,142)	(5,914)
On hedged items	(81,223)		124,228	

19 RISK MANAGEMENT

Current Economic Situation

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

Impact of COVID-19 on ECL

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

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

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

Analysis of customers benefitting from payment deferrals

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

30 September 2021	<i>Wholesale banking AED'000</i>	<i>Retail banking AED'000</i>	<i>Total AED'000</i>
Group 1			
Loans and advances	-	427,632	427,632
Less: Expected credit losses	-	(16,083)	(16,083)
	-	411,549	411,549
Group 2			
Loans and advances	-	78,143	78,143
Less: Expected credit losses	-	(45,510)	(45,510)
	-	32,633	32,633
Total			
Loans and advances	-	505,775	505,775
Less: Expected credit losses	-	(61,593)	(61,593)
	-	444,182	444,182
Number of customers / accounts	-	1,203	1,203

19 RISK MANAGEMENT (continued)

Analysis of customers benefitting from payment deferrals (continued)

As at 30 September 2021, the Zero Cost Funding (ZCF) under the CBUAE TESS program availed by the Bank amounts to AED 54,000,000 of which AED 52,144,000 is the deferred amount as at 30 September 2021.

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

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Loans and advances				
As at 31 December 2020	1,721,582	912,234	17,615	2,651,431
Net of assets originated and transferred	(1,267,571)	(878,014)	(71)	(2,145,656)
Transferred from Stage 1	(91,182)	90,310	872	-
Transferred from Stage 2	26,182	(68,659)	42,477	-
Transferred from Stage 3	1,744	7,560	(9,304)	-
As at 30 September 2021	390,755	63,431	51,589	505,775

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>
Loans and advances				
As at 31 December 2020	25,707	206,543	4,842	237,092
Net of assets originated and transferred	(16,469)	(153,478)	(5,552)	(175,499)
Transferred from Stage 1	(4,707)	544	4,163	-
Transferred from Stage 2	470	(33,947)	33,477	-
Transferred from Stage 3	-	-	-	-
As at 30 September 2021	5,001	19,662	36,930	61,593

20 CAPITAL ADEQUACY RATIO

	<i>Unaudited</i> <i>30 September</i> <i>2021</i>	<i>Audited</i> <i>31 December</i> <i>2020</i>
Common equity tier 1 ratio	12.5%	12.5%
Tier 1 capital ratio	12.5%	12.5%
Capital adequacy ratio	13.6%	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 September 2021.