

United Arab Bank P.J.S.C.

CONDENSED INTERIM FINANCIAL INFORMATION

**FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2018**

United Arab Bank P.J.S.C.

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

	Pages
Review report on condensed interim financial information	2
Interim statement of financial position	3
Interim statement of income	4
Interim statement of comprehensive income	5
Interim statement of cash flows	6
Interim statement of changes in equity	7
Notes to the condensed interim financial information	8 - 30



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

Introduction

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

Scope of review

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

Conclusion

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

PricewaterhouseCoopers
19 July 2018

A handwritten signature in blue ink, appearing to read 'Jacques E Fakhoury', is written over a light blue horizontal line.

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


*PricewaterhouseCoopers (Dubai Branch), License no. 102451
Emaar Square, Building 4, Level 8, P O Box 11987, Dubai - United Arab Emirates
T: +971 (0)4 304 3100, F: +971 (0)4 346 9150, www.pwc.com/me*

Douglas O'Mahony, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy

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

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

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



 Mohamed Bin Abdulla Al Nuaimi
 Acting Chief Executive Officer

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

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

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

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

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

	<i>Six month period ended</i>	
	<i>30 June</i>	
	<i>2018</i>	<i>2017</i>
	<i>AED'000</i>	<i>AED'000</i>
Operating activities		
Net profit for the period	80,541	55,148
Adjustments for:		
Depreciation	15,071	17,693
Loss on write off of property and equipment	2,546	5,000
Gain from insurance proceeds	-	(5,201)
Net impairment losses	92,622	116,277
Amortisation of premium paid on investments	17,562	10,284
Net fair value (gain) / loss on disposal of investments	(474)	5,114
Unrealised loss / (gain) on investments	206	(1,341)
Operating profit before working capital changes	<u>208,074</u>	<u>202,974</u>
Changes in operating assets and liabilities:		
Loans and advances	28,868	(378,611)
Balances with the UAE Central bank maturing after three months	(158,314)	137,286
Due from other banks maturing after three months	-	(37,698)
Cash margin held by counterparty banks against borrowings and derivative transactions	18,104	(5,710)
Other assets	237,639	(155,829)
Due to banks maturing after three months	460,488	669,608
Customers' deposits	(1,178,808)	(1,657,228)
Other liabilities	(297,398)	305,124
Net cash used in operating activities	<u>(681,347)</u>	<u>(920,084)</u>
Investing activities		
Purchase of property, equipment and capital work-in-progress	(9,944)	(26,966)
Proceeds on sale of property and equipment	-	1,070
Proceeds from insurance claims	-	5,000
Proceeds from closure of subsidiary	10,238	-
Purchase of investments	(1,442,084)	(1,311,251)
Proceeds from redemption / sale of investments	918,818	1,233,758
Net cash used in investing activities	<u>(522,972)</u>	<u>(98,389)</u>
Financing activities		
Increase in ordinary share capital on rights issue	687,517	-
Rights issue costs	(1,878)	-
Net cash used in financing activities	<u>685,639</u>	<u>-</u>
Net change in cash and cash equivalents	(518,680)	(1,018,473)
Cash and cash equivalents at 1 January	1,036,067	1,631,477
Cash and cash equivalents at 30 June	<u>517,387</u>	<u>613,004</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 the UAE Central Bank	750,261	961,340
Due from other banks	380,842	366,698
Due to banks	(613,716)	(715,034)
	<u>517,387</u>	<u>613,004</u>

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

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

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

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

For the six month period ended 30 June 2018

1 LEGAL STATUS AND ACTIVITIES

United Arab Bank P.J.S.C. (the “Bank”) was incorporated in 1975 as a Private Joint Stock Company in the Emirate of Sharjah. The legal form of the Bank was converted to a public company with limited liability in 1982 by a decree of His Highness The Ruler of Sharjah and has been registered as a Public Joint Stock Company under the UAE Commercial Companies Law No. (8) of 1984 (as amended). The Bank’s registered office is located in the Emirate of Sharjah, United Arab Emirates. The address of the registered office is PO Box 25022, Sharjah, United Arab Emirates.

The Bank carries out the business of commercial banking through its offices and branches in the United Arab Emirates. The Bank also carries out Islamic banking operations through Islamic banking windows at selected branches.

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

2 BASIS OF PREPARATION

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

United Arab Bank P.J.S.C.
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2018 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

Classification of financial assets and financial liabilities

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

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

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

For the six month period ended 30 June 2018 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Classification of financial assets and financial liabilities (continued)

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

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

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

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

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

United Arab Bank P.J.S.C.
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2018 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Financial instruments

Classification

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

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

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

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

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

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

United Arab Bank P.J.S.C.
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2018 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial instruments (continued)

Classification (continued)

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

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

All other financial assets are classified as measured at FVTPL.

Gains and losses on subsequent measurement

Debt investments

Gains and losses arising from changes in the fair value of FVOCI investments are recognised directly in equity through other comprehensive income, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of income.

Equity investments

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

Impairment of financial assets

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

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

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

United Arab Bank P.J.S.C.
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2018 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial instruments (continued)

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

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

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

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

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

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

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

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

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

There are no other applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Bank’s financial year beginning on 1 January 2018 that would be expected to have a material impact on the condensed interim financial information of the Bank.

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

For the six month period ended 30 June 2018 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Key accounting estimates and judgments

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

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

Classification of financial assets

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

Impairment of financial assets

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

Importance of staging criteria

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

Measurement of ECL

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

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

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

Financial risk management

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

United Arab Bank P.J.S.C.
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2018 (continued)

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

On 15 January 2018, the Bank held an Extraordinary General Meeting to approve a rights issue, offering existing shareholders 1 ordinary share for every 2 ordinary shares held. Subsequently in March 2018, the rights issue was fully subscribed and resulted in an increase in the paid up share capital of the Bank by AED 687,516,883 from AED 1,375,033,766 (1,375,033,766 ordinary shares) to AED 2,062,550,649 (2,062,550,649 ordinary shares).

The figures for diluted earnings per share are the same as basic earnings per share as the Bank has not issued any instruments which would have an impact on earnings per share if or when exercised.

United Arab Bank P.J.S.C.**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION****For the six month period ended 30 June 2018 (continued)****5 CASH AND BALANCES WITH THE UAE CENTRAL BANK**

	<i>Unaudited</i> 30 June 2018 <i>AED'000</i>	<i>Audited</i> 31 December 2017 <i>AED'000</i>
Cash on hand	89,526	83,551
Balances with the UAE Central Bank:		
Clearing accounts	210,735	271,735
Certificate of deposits	700,000	1,000,000
Reserve requirements	719,656	661,342
	<u>1,719,917</u>	<u>2,016,628</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. However, the UAE Central Bank, in its Circular 4310/2008 dated 24 September 2008, has temporarily permitted banks to overdraw their current accounts (a) upto the amount of reserves at an interest rate of 3% per annum above the prevailing Central Bank repo rate; and (b) in excess of reserves at an interest of 5% per annum above the prevailing Central Bank repo rate. The level of reserve required changes every month in accordance with the UAE Central Bank directive.

6 DUE FROM OTHER BANKS

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

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

United Arab Bank P.J.S.C.
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2018 (continued)

7 LOANS AND ADVANCES

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

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

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

United Arab Bank P.J.S.C.
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2018 (continued)

8 INVESTMENTS

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

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

United Arab Bank P.J.S.C.
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2018 (continued)

9 DUE TO BANKS

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

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

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

10 CUSTOMERS' DEPOSITS

	<i>Unaudited</i> <i>30 June</i> <i>2018</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2017</i> <i>AED'000</i>
Term and call deposits	9,828,221	11,094,811
Current accounts	3,758,936	3,645,735
Savings accounts	293,890	309,371
	<u>13,881,047</u>	<u>15,049,917</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>2018</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2017</i> <i>AED'000</i>
Balance as at 1 January	844,629	1,524,005
New borrowings	-	-
Repayments	-	(679,376)
	<u>844,629</u>	<u>844,629</u>

United Arab Bank P.J.S.C.**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION****For the six month period ended 30 June 2018 (continued)****11 MEDIUM TERM BORROWINGS (continued)**

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

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

12 COMMITMENTS AND CONTINGENT LIABILITIES

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

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

United Arab Bank P.J.S.C.
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2018 (continued)

13 CREDIT RISK

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

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

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

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

United Arab Bank P.J.S.C.
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2018 (continued)

13 CREDIT RISK (continued)

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

United Arab Bank P.J.S.C.
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2018 (continued)

13 CREDIT RISK (continued)

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

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

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

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

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

United Arab Bank P.J.S.C.
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2018 (continued)

13 CREDIT RISK (continued)

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

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

Impairment losses recognized in the income statement is as follows:

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

14 DIVIDENDS

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

United Arab Bank P.J.S.C.
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2018 (continued)

15 SEGMENTAL INFORMATION

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

- Corporate banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;
- Retail banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities as well as Islamic banking services;
- Treasury - principally providing money market, trading and treasury services as well as management of the Bank's funding operations; and
- Others - Includes the non-core portfolio of SME and Personal Loans to Self-Employed businesses.

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

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

	<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	151,149	53,274	37,548	10,937	252,908
Other operating income	55,152	9,645	21,540	1,985	88,322
Operating expenses	(93,330)	(44,362)	(26,730)	(3,645)	(168,067)
Net impairment losses	(61,985)	(20,104)	(2,937)	(7,596)	(92,622)
Profit for the period	<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>

United Arab Bank P.J.S.C.
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2018 (continued)

15 SEGMENTAL INFORMATION (continued)

Segmental information for the six month period ended 30 June 2017 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	125,336	59,660	29,599	30,771	245,366
Other operating income	73,852	14,024	11,470	908	100,254
Operating expenses	(84,665)	(61,479)	(22,810)	(5,241)	(174,195)
Net impairment losses	17,450	(44,338)	-	(89,389)	(116,277)
Profit / (loss) for the period	<u>131,973</u>	<u>(32,133)</u>	<u>18,259</u>	<u>(62,951)</u>	<u>55,148</u>
Capital expenditure - Property and equipment	<u>14,830</u>	<u>9,168</u>	<u>2,427</u>	<u>539</u>	<u>26,964</u>
At 30 June 2017					
Segment assets	<u>11,333,622</u>	<u>3,375,847</u>	<u>6,024,545</u>	<u>423,002</u>	<u>21,157,016</u>
Segment liabilities	<u>11,525,209</u>	<u>3,390,896</u>	<u>3,879,086</u>	<u>179,653</u>	<u>18,974,844</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 INFORMATION
For the six month period ended 30 June 2018 (continued)

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

United Arab Bank P.J.S.C.
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2018 (continued)

16 RELATED PARTY TRANSACTIONS (continued)

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

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

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

United Arab Bank P.J.S.C.
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2018 (continued)

16 RELATED PARTY TRANSACTIONS (continued)

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

Terms and conditions of transactions with related parties

The above mentioned outstanding balances and transactions arose from the ordinary course of business and have been conducted on an arm's length basis. The interest charged to and by related parties is at normal commercial rates. Outstanding balances at year end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the six month period ended 30 June 2018, the Bank has not recorded any impairment on amounts owed by related parties (30 June 2017: Nil).

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

United Arab Bank P.J.S.C.
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2018 (continued)

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 June 2018				
Investments	3,749,713	-	543	3,750,256
Derivative assets	-	127,030	-	127,030
	<u>3,749,713</u>	<u>127,030</u>	<u>543</u>	<u>3,877,286</u>
Derivative liabilities	-	70,096	-	70,096
31 December 2017				
Investments	3,394,570	-	377	3,394,947
Derivative assets	-	110,760	-	110,760
	<u>3,394,570</u>	<u>110,760</u>	<u>377</u>	<u>3,505,707</u>
Derivative liabilities	-	88,948	-	88,948

Financial instruments not recorded at fair value

The fair values of financial instruments not recorded at fair value includes cash and balances with the UAE Central Bank, due from other banks, loans and advances, investments held at amortised cost, other assets (excluding derivative assets), due to banks, customer's deposits and other liabilities (excluding derivative liabilities) that are categorised as level two based on market observable inputs. The fair values of financial instruments not recorded at fair value are not materially different from their carrying values.