

United Arab Bank P.J.S.C.

Review report and condensed interim financial statements

For the six months period ended 30 June 2020

United Arab Bank P.J.S.C.

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For the six months period ended 30 June 2020**

	Pages
Independent auditor's review report to the shareholders and directors	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 statements	8 - 28

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

Introduction

We have reviewed the accompanying condensed interim financial statements of United Arab Bank P.J.S.C. (the "Bank"), which comprise the interim statement of financial position as at 30 June 2020 and the related interim statements of income and comprehensive income for the three months and six months period then ended, statements of cash flows and changes in equity for the six month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not prepared, in all material respects, in accordance with IAS 34.

For Ernst & Young



Signed by:
Thodla Hari Gopal
Partner
Registration No: 689

29 July 2020

Dubai, United Arab Emirates

United Arab Bank P.J.S.C.

INTERIM STATEMENT OF FINANCIAL POSITION

For the six months period ended 30 June 2020 (Unaudited)

		<i>Unaudited</i> 30 June 2020 <i>AED'000</i>	<i>Audited</i> 31 December 2019 <i>AED'000</i>
	<i>Note</i>		
Assets			
Cash and balances with UAE Central Bank	5	1,594,070	2,184,497
Due from other banks	6	355,876	739,337
Loans and advances and Islamic financing receivables	7	10,370,009	11,563,490
Investments and Islamic instruments	8	3,337,131	3,502,796
Property, equipment and capital work-in-progress		422,137	430,570
Other assets		629,836	704,231
TOTAL ASSETS		16,709,059	19,124,921
Liabilities and shareholders' equity			
Liabilities			
Due to banks	9	2,406,516	1,877,717
Customer deposits and Islamic customer deposits	10	11,664,555	12,685,568
Medium term borrowings	11	-	1,487,363
Other liabilities		864,654	913,959
TOTAL LIABILITIES		14,935,725	16,964,607
Shareholders' equity			
Share capital	4	2,062,550	2,062,550
Special reserve		-	422,116
Statutory reserve		28,924	504,671
General reserve		9,311	9,311
Revaluation reserve		536	555
Cumulative changes in fair value		(119,061)	58,974
Accumulated losses		(208,926)	(897,863)
TOTAL SHAREHOLDERS' EQUITY		1,773,334	2,160,314
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		16,709,059	19,124,921

This condensed interim financial information was approved by the Board of Directors on 29/07/2020 and signed on its behalf by:

Ahmad AbuEideh
Chief Executive Officer

The notes on pages 8 to 28 form an integral part of the condensed interim financial information. The independent auditors' report on review of the Bank's condensed interim financial information is set out on page 2.

United Arab Bank P.J.S.C.

INTERIM STATEMENT OF INCOME

For the six months period ended 30 June 2020 (Unaudited)

	Notes	Three month period ended 30 June (Unaudited)		Six month period ended 30 June (Unaudited)	
		2020 AED'000	2019 AED'000	2020 AED'000	2019 AED'000
Interest income		156,732	231,046	337,018	462,338
Income from Islamic financing products		6,081	8,001	18,641	17,572
Total interest income and income from Islamic financing products		162,813	239,047	355,659	479,910
Interest expense		(72,778)	(91,009)	(154,386)	(182,733)
Distribution to depositors – Islamic products		(14,318)	(47,882)	(37,904)	(91,839)
Total interest expense and distribution to depositors		(87,096)	(138,891)	(192,290)	(274,572)
Net interest income and income from Islamic products net of distribution to depositors		75,717	100,156	163,369	205,338
Net fees and commission income		6,737	15,789	19,477	41,438
Foreign exchange income		4,024	7,825	8,592	14,622
Other operating income		6,887	5,923	27,541	20,343
Total operating income		93,365	129,693	218,979	281,741
Employee benefit expenses		(42,436)	(48,765)	(80,519)	(98,176)
Other operating expenses		(17,574)	(18,121)	(35,383)	(38,938)
Depreciation		(7,933)	(10,236)	(15,619)	(21,071)
Total operating expenses		(67,943)	(77,122)	(131,521)	(158,185)
Profit before impairment loss		25,422	52,571	87,458	123,556
Net impairment loss	12	(114,424)	(38,445)	(296,403)	(87,850)
Net (loss) / profit for the period		(89,002)	14,126	(208,945)	35,706
Earnings per share (basic and diluted in AED)	4	(0.04)	0.01	(0.10)	0.02

United Arab Bank P.J.S.C.

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months period ended 30 June 2020 (Unaudited)

	<i>Three month period ended 30 June (Unaudited)</i>		<i>Six month period ended 30 June (Unaudited)</i>	
	2020 <i>AED'000</i>	2019 <i>AED'000</i>	2020 <i>AED'000</i>	2019 <i>AED'000</i>
Net (loss) / profit for the period	(89,002)	14,126	(208,945)	35,706
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 changes in fair value of FVOCI investments and Islamic instruments	226,324	31,839	(178,035)	41,665
Other comprehensive (loss) / income for the period	226,324	31,839	(178,035)	41,665
Total comprehensive (loss) / income for the period	137,322	45,965	(386,980)	77,371

United Arab Bank P.J.S.C.

INTERIM STATEMENT OF CASH FLOWS

For the six months period ended 30 June 2020 (Unaudited)

	<i>Six months period ended 30 June (unaudited)</i>	
	<i>2020</i>	<i>2019</i>
	<i>AED'000</i>	<i>AED'000</i>
Operating activities		
Net (loss) / profit for the period	(208,945)	35,706
Adjustments for:		
Depreciation	15,620	21,071
Loss on write off of property and equipment	1,868	1,050
Gain on sale of property and equipment	(90)	-
Net impairment losses	296,403	87,850
Amortisation of premium paid on investments	11,416	13,349
Net fair value loss / (gain) on disposal of investments and Islamic instruments	(4,129)	6,389
Unrealised loss on investments	239	36
Insurance proceeds	-	2
Operating cash flows before movements in working capital	<u>112,382</u>	<u>165,453</u>
Changes in operating assets and liabilities:		
Loans and advances and Islamic financing receivables	916,962	295,378
Balances with the UAE Central Bank maturing after six months	430,057	91,301
Cash margin held by counterparty banks against borrowings and derivative transactions	(113,884)	(104,659)
Other assets	70,810	80,013
Due to banks maturing after six months	1,033,150	(535,875)
Customer deposits and Islamic customer deposits	(1,021,013)	(1,134,040)
Other liabilities	(197,666)	(27,878)
Net cash generated from / (used in) operating activities	<u>1,230,798</u>	<u>(1,170,307)</u>
Investing activities		
Purchase of property, equipment and capital work-in-progress	(12,470)	(14,683)
Purchase of investments	(6,904)	(783,425)
Proceeds from redemption / sale of investments	122,486	907,944
Proceeds from sale of property and equipment	90	-
Net cash generated from investing activities	<u>103,202</u>	<u>109,836</u>
Financing activities		
Rights issue costs	-	(222)
Medium term borrowings	(1,487,363)	532,513
Net cash (used in) / generated from financing activities	<u>(1,487,363)</u>	<u>532,291</u>
Net decrease in cash and cash equivalents	<u>(153,363)</u>	<u>(528,180)</u>
Cash and cash equivalents at 1 January	<u>1,100,098</u>	<u>741,913</u>
Cash and cash equivalents at 30 June	<u><u>946,735</u></u>	<u><u>213,733</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	1,208,270	899,516
Due from other banks	111,846	134,358
Due to banks	(373,381)	(820,141)
	<u>946,735</u>	<u>213,733</u>

The notes on pages 8 to 28 form an integral part of the condensed interim financial information. The independent auditors' report on review of the Bank's condensed interim financial information is set out on page 2.

United Arab Bank P.J.S.C.

INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months period ended 30 June 2020 (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 2020 (audited)	2,062,550	422,116	504,671	9,311	555	58,974	(897,863)	2,160,314
Loss for the period	-	-	-	-	-	-	(208,945)	(208,945)
Other comprehensive loss for the period	-	-	-	-	-	(178,035)	-	(178,035)
Total comprehensive income for the period	-	-	-	-	-	(178,035)	(208,945)	(386,980)
Accumulated losses offset against reserves (note 4)	-	(422,116)	(475,747)	-	-	-	897,863	-
Depreciation transfer for land and buildings	-	-	-	-	(19)	-	19	-
At 30 June 2020 (unaudited)	2,062,550	-	28,924	9,311	536	(119,061)	(208,926)	1,773,334
At 1 January 2019 (audited)	2,062,550	422,116	504,671	9,311	593	(42,855)	(426,926)	2,529,460
Profit for the period	-	-	-	-	-	-	35,706	35,706
Other comprehensive income for the period	-	-	-	-	-	41,665	-	41,665
Total comprehensive income for the period	-	-	-	-	-	41,665	35,706	77,371
Rights issue cost	-	-	-	-	-	-	(222)	(222)
Depreciation transfer for land and buildings	-	-	-	-	(19)	-	19	-
At 30 June 2019 (unaudited)	2,062,550	422,116	504,671	9,311	574	(1,190)	(391,423)	2,606,609

The notes on pages 8 to 28 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 2019, except for the adoption of new standards effective as of 1 January 2020. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Standards, amendments and interpretations that are effective for the Group’s accounting period beginning on 1 January 2020

Title	Effective for annual period beginning on or after
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020

The Bank has concluded that the uncertainty arising from IBOR reform is not affecting its hedge relationships to the extent that the hedge relationships need to be discontinued.

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 2020 that would be expected to have a material impact on the condensed interim financial information of the Bank.

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 2019.

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 2019, 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 2019. In addition, results for the six months period ended 30 June 2020 are not necessarily indicative of the results that may be expected for the full financial year ending 31 December 2020.

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 2019 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 2019, 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 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 manages its capital to ensure that it will be able to continue as a going concern while upholding the interest of its stakeholders. To this effect, in the AGA meeting held on 13 April 2020, the Bank has also secured the approval from its shareholders for the issuance of a non-convertible additional tier 1 instruments (“AT1”) up to an amount of AED250 million for the purposes of strengthening the Bank’s capital position. The Bank is seeking regulatory consents for such an issuance and as such, any proposed AT1 issuance remains subject to necessary regulatory approvals. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank’s ability to continue as a going concern. Therefore, the interim financial statements continue to be prepared on the going concern basis

4 EARNINGS PER SHARE

Basic earnings per share is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	<i>Unaudited six months period ended 30 June</i>	
	2020	2019
	AED	AED
Net (loss) / profit for the period	(208,945,000)	35,706,000
<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 (0.10)	AED 0.02

4 EARNINGS PER SHARE (continued)

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

The Bank has in its Annual General Assembly (AGA) meeting held on 13 April 2020 obtained the approval of the Bank's shareholders to set off the accumulated losses as at 31 December 2019 against the Special and Statutory reserves held as at that date. Following the receipt of the regulatory consents in June 2020, the accumulated losses as at 31 December 2019 of AED 897,863 thousand have been fully set off against the Special reserve of AED 422,116 thousand and Statutory reserve of AED 475,747 thousand. This has resulted in the special reserve being zeroised and a remaining balance of AED 28,924 thousand in the Bank's statutory reserve.

5 CASH AND BALANCES WITH THE UAE CENTRAL BANK

	<i>Unaudited</i> 30 June 2020 <i>AED'000</i>	<i>Audited</i> 31 December 2019 <i>AED'000</i>
Cash on hand	78,933	81,059
Balances with UAE Central Bank:		
Clearing accounts	629,336	337,580
Certificate of deposits	600,000	1,250,000
Reserve requirements	285,801	515,858
	1,594,070	2,184,497

The reserve requirements kept with the UAE Central Bank in AED and USD, are not available for use in the Bank's day to day operations and cannot be withdrawn without its approval. The level of reserve required changes every month in accordance with the UAE Central Bank directives.

6 DUE FROM OTHER BANKS

	<i>Unaudited</i> 30 June 2020 <i>AED'000</i>	<i>Audited</i> 31 December 2019 <i>AED'000</i>
Demand deposits	355,876	245,362
Term deposits	-	493,975
	355,876	739,337

Due from other banks include AED 118,475,000 (31 December 2019: AED 105,858,000) placed with foreign banks outside the UAE. AED 244,030,000 (31 December 2019: AED 130,146,000) is held as margin for derivative transactions.

6 DUE FROM OTHER BANKS (continued)

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	307,310	-	-	307,310
Standard	48,566	-	-	48,566
As at 30 June 2020 (unaudited)	355,876	-	-	355,876
	<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	367,405	-	-	367,405
Standard	371,932	-	-	371,932
As at 31 December 2019 (audited)	739,337	-	-	739,337

The Bank holds a stage 1 expected credit loss allowance of AED 66,000 (31 December 2019: AED 86,000) on its due from other banks.

7 LOANS AND ADVANCES AND ISLAMIC FINANCING RECEIVABLES

	<i>Unaudited</i> <i>30 June</i> <i>2020</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2019</i> <i>AED'000</i>
The composition of the loans and advances portfolio is as follows:		
Overdrafts	1,206,078	1,360,879
Term loans (medium and short term)*	9,703,711	10,648,270
Loans against trust receipts	661,309	587,392
Bills discounted	206,152	271,228
Other cash advances	48,490	48,663
Bills drawn under letters of credit	59,535	114,175
Gross amount of loans and advances and Islamic financing receivables	11,885,275	13,030,607
Less: Provision for impairment on loans and advances and Islamic financing receivables	(1,515,266)	(1,467,117)
Net loans and advances and Islamic financing receivables	10,370,009	11,563,490

* Includes retail loans of AED 2,711,193,000 (2019: AED 2,880,123,000)

Islamic financing receivables amount to AED 644,911,000 (31 December 2019: AED 748,331,000) recognized through the Bank's Shari'a – compliant Islamic window.

At 30 June 2020, the gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance amounted to AED 1,771,575,000 (31 December 2019: AED 1,483,820,000).

7 LOANS AND ADVANCES AND ISLAMIC FINANCING RECEIVABLES (continued)

Grading of gross balances of loans and advances and Islamic financing receivables along with stages

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
High	12,349	-	-	12,349
Standard	8,588,931	1,155,208	-	9,744,139
Watchlist	-	357,212	-	357,212
Default	-	-	1,771,575	1,771,575
Total gross carrying amount	8,601,280	1,512,420	1,771,575	11,885,275
Expected credit loss	(101,954)	(253,074)	(1,160,238)	(1,515,266)
As at 30 June 2020 (unaudited)	8,499,326	1,259,346	611,337	10,370,009
	<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	23,424	-	-	23,424
Standard	9,490,574	1,515,732	-	11,006,306
Watchlist	-	517,057	-	517,057
Default	-	-	1,483,820	1,483,820
Total gross carrying amount	9,513,998	2,032,789	1,483,820	13,030,607
Expected credit loss	(83,550)	(238,381)	(1,145,186)	(1,467,117)
As at 31 December 2019 (audited)	9,430,448	1,794,408	338,634	11,563,490

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 2019	9,513,998	2,032,789	1,483,820	13,030,607
Net of new assets originated and assets repaid	(571,447)	(362,620)	45,370	(888,697)
Write-offs	-	-	(256,635)	(256,635)
Transferred from Stage 1	(435,872)	435,872	-	-
Transferred from Stage 2	-	(594,833)	594,833	-
Transferred from Stage 3	94,601	1,212	(95,813)	-
As at 30 June 2020	8,601,280	1,512,420	1,771,575	11,885,275
	<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 2018	10,314,469	2,304,697	1,283,648	13,902,814
Net of new assets originated and assets repaid	(390,494)	(458,618)	146,314	(702,798)
Write-offs	-	-	(169,409)	(169,409)
Transferred from Stage 1	(414,049)	414,049	-	-
Transferred from Stage 2	-	(232,816)	232,816	-
Transferred from Stage 3	4,072	5,477	(9,549)	-
As at 31 December 2019	9,513,998	2,032,789	1,483,820	13,030,607

7 LOANS AND ADVANCES AND ISLAMIC FINANCING RECEIVABLES (continued)

Movement in provision for impairment of loans and advances:

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Balance as at 31 December 2019	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	2,075	(2,075)	-	-
Transferred to lifetime ECL not credit impaired	(46,376)	46,376	-	-
Transferred to lifetime ECL credit-impaired	-	(104,878)	104,878	-
Transferred from lifetime ECL credit-impaired on commitments and contingent liabilities	-	-	268	268
Charge to income statement	62,705	75,270	166,880	304,855
Write-offs	-	-	(256,974)	(256,974)
As at 30 June 2020 (unaudited)	101,954	253,074	1,160,238	1,515,266
	<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 2019	60,036	348,631	735,046	1,143,713
<i>Changes due to provisions recognized in the opening balance that have:</i>				
Transferred to 12 month ECL	327	(327)	-	-
Transferred to lifetime ECL not credit impaired	(23,917)	23,917	-	-
Transferred to lifetime ECL credit-impaired	-	(108,543)	108,543	-
Transferred to lifetime ECL credit-impaired on commitments and contingent liabilities	-	-	(16,984)	(16,984)
Charge to income statement	29,599	(35,736)	365,690	359,553
Changes in estimate (note 12.1)	17,505	55,309	-	72,814
Write-offs	-	(44,870)	(47,109)	(91,979)
As at 31 December 2019 (audited)	83,550	238,381	1,145,186	1,467,117

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months period ended 30 June 2020 (Unaudited)

8 INVESTMENTS AND ISLAMIC INSTRUMENTS

	<i>Unaudited</i> 30 June 2020			<i>Audited</i> 31 December 2019		
	<i>Quoted</i> <i>AED'000</i>	<i>Unquoted</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>	<i>Quoted</i> <i>AED'000</i>	<i>Unquoted</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Debt:						
<i>FVTPL</i>						
Local	-	-	-	-	-	-
Overseas	1,951	-	1,951	-	-	-
<i>FVOCI</i>						
Local	2,681,448	-	2,681,448	2,744,185	-	2,744,185
Overseas	652,903	-	652,903	739,500	-	739,500
<i>Amortised cost</i>						
Local	-	-	-	18,383	-	18,383
Total debt securities	3,336,302	-	3,336,302	3,502,068	-	3,502,068
Equity:						
<i>FVOCI</i>						
Local	-	467	467	-	467	467
Overseas	286	76	362	285	76	361
Total equities	286	543	829	285	543	828
Total investments	3,336,588	543	3,337,131	3,502,353	543	3,502,896
Expected credit loss			-			(100)
Net investments			3,337,131			3,502,796

Investment securities include AED 1,493,749,000 (31 December 2019: AED 455,955,000) pledged under repurchase agreements with the lenders.

8 INVESTMENTS AND ISLAMIC INSTRUMENTS (continued)

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

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
High	1,418,653	-	-	1,418,653
Standard	1,915,698	-	-	1,915,698
Total gross carrying amount	3,334,351	-	-	3,334,351
Expected credit loss	(19,714)	-	-	(19,714)
As at 30 June 2020 (unaudited)	3,314,637	-	-	3,314,637

	<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	1,447,250	-	-	1,447,250
Standard	2,054,818	-	-	2,054,818
Total gross carrying amount	3,502,068	-	-	3,502,068
Expected credit loss	(21,956)	-	-	(21,956)
As at 31 December 2019 (audited)	3,480,112	-	-	3,480,112

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 2019	21,956	-	-	21,956
Net release to income statement	(2,242)	-	-	(2,242)
As at 30 June 2020 (unaudited)	19,714	-	-	19,714

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Balance as at 31 December 2018	20,929	-	-	20,929
Net release to income statement	1,027	-	-	1,027
As at 31 December 2019 (Audited)	21,956	-	-	21,956

9 DUE TO BANKS

	<i>Unaudited</i> <i>30 June</i> <i>2020</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2019</i> <i>AED'000</i>
Demand deposits	54,483	7,732
Term deposits	2,352,033	1,869,985
	2,406,516	1,877,717

Due to banks include AED Nil (31 December 2019: AED Nil) held as margin for derivative transactions.

Term deposits include borrowings through repurchase agreements of AED 1,152,538,000 (31 December 2019: AED 348,888,000).

10 CUSTOMER DEPOSITS AND ISLAMIC CUSTOMER DEPOSITS

	<i>Unaudited</i> <i>30 June</i> <i>2020</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2019</i> <i>AED'000</i>
Term deposits	8,659,352	9,536,572
Current accounts	2,660,813	2,834,551
Call and savings accounts	344,390	314,445
	11,664,555	12,685,568

Customer's deposits include Islamic customer deposits amounting to AED 2,237,784,000 (31 December 2019: AED 3,041,617,000) 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> <i>30 June</i> <i>2020</i> <i>AED'000</i>	<i>Audited</i> <i>31 December</i> <i>2019</i> <i>AED'000</i>
Balance as at 1 January	1,487,363	954,850
Issued during the period / year	-	807,951
Repaid during the period / year	(1,487,363)	(275,438)
Balance as at period / year end	-	1,487,363

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

12 NET IMPAIRMENT LOSS

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

	<i>Six months period ended</i> <i>30 June (Unaudited)</i>	
	<i>2020</i> <i>AED'000</i>	<i>2019</i> <i>AED'000</i>
Net impairment of financial assets on:		
Loans and advances and Islamic financing receivables	304,855	89,492
Contingent liabilities	18,871	3,210
Due from other banks	(19)	12
Investments and Islamic instruments	(2,242)	1,086
Principal waivers on loans and advances and Islamic financing receivables	(70)	78
Recovery on bad debts written-off	(31,992)	(6,728)
Net impairment of non-financial assets	7,000	700
Net impairment loss	296,403	87,850

12 NET IMPAIRMENT LOSS (continued)

12.1 Upon implementation of IFRS 9 in 2018, the Bank had applied a 45% LGD on the Bank's unsecured portfolio following regulatory guidelines as well as independent reviews undertaken at the time. In 2019, the Bank had increased this LGD to 65% on the Bank's unsecured portfolio to reflect historical data together with the Bank's forward looking business plans. The impact of this change in estimate for 2019 has been disclosed in note 7 (on loans and advances) and note 13 (on commitments and contingencies).

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> 30 June 2020 <i>AED'000</i>	<i>Audited</i> 31 December 2019 <i>AED'000</i>
<i>Contingent liabilities</i>		
Letters of credit	274,155	278,390
Guarantees	2,771,360	3,234,297
	<u>3,045,515</u>	<u>3,512,687</u>
<i>Commitments</i>		
Undrawn loan commitments	<u>2,352,171</u>	<u>2,404,959</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	17,198	-	-	17,198
Standard	1,900,097	854,100	-	2,754,197
Watchlist	-	182,594	-	182,594
Default	-	-	91,526	91,526
	<u>1,917,295</u>	<u>1,036,694</u>	<u>91,526</u>	<u>3,045,515</u>
Total gross carrying amount	1,917,295	1,036,694	91,526	3,045,515
Expected credit loss	(16,300)	(56,167)	(37,431)	(109,898)
As at 30 June 2020 (unaudited)	<u>1,900,995</u>	<u>980,527</u>	<u>54,095</u>	<u>2,935,617</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	8,264	117	-	8,150
Standard	2,406,814	945,178	-	3,263,896
Watchlist	-	84,198	4,090	176,615
Default	-	-	64,026	64,026
	<u>2,415,078</u>	<u>1,029,493</u>	<u>68,116</u>	<u>3,512,687</u>
Total gross carrying amount	2,415,078	1,029,493	68,116	3,512,687
Expected credit loss	(14,000)	(45,462)	(31,833)	(91,295)
As at 31 December 2019 (audited)	<u>2,401,078</u>	<u>984,031</u>	<u>36,283</u>	<u>3,421,392</u>

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 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	(185,858)	180,385	5,473	-
Transferred from Stage 2	-	(18,345)	18,345	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the year	(311,925)	(154,839)	(408)	(467,172)
As at 30 June 2020	1,917,295	1,036,694	91,526	3,045,515
	<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 2018	2,970,902	822,716	45,382	3,839,000
<i>Changes due to financial assets recognized in the opening balance that have:</i>				
Transferred from Stage 1	(362,778)	362,778	-	-
Transferred from Stage 2	-	(27,279)	27,279	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the year	(193,046)	(128,722)	(4,545)	(326,313)
As at 31 December 2019	2,415,078	1,029,493	68,116	3,512,687

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 2019	14,000	45,462	31,833	91,295
Changes due to provisions recognized in the opening balance that have:				
Transferred to 12 month ECL	526	(526)	-	-
Transferred to lifetime ECL not credit impaired	(5,432)	5,432	-	-
Transferred to lifetime ECL credit-impaired	-	(2,962)	2,962	-
Transfer from / (to) ECL credit-impaired on loans	-	(2,904)	2,636	(268)
Charge to income statement	7,206	11,665	-	18,871
As at 30 June 2020 (unaudited)	16,300	56,167	37,431	109,898
	<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 2019	12,862	30,059	-	42,921
Changes due to provisions recognized in the opening balance that have:				
Transferred to 12 month ECL	637	(637)	-	-
Transferred to lifetime ECL not credit impaired	(10,594)	10,594	-	-
Transferred from ECL credit impaired on loans	-	-	16,984	16,984
Charge to income statement	3,975	(6,286)	14,849	12,538
Changes in estimate (note 12.1)	7,120	11,732	-	18,852
As at 31 December 2019 (audited)	14,000	45,462	31,833	91,295

14 DIVIDENDS

At the virtual Annual General Meeting of the shareholders held on 13 April 2020, no cash or scrip dividend was proposed or subsequently approved for the year ended 31 December 2019 (2018: Nil).

15 SEGMENTAL INFORMATION

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

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

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

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

15 SEGMENTAL INFORMATION (continued)

Segmental information for the six months period ended 30 June 2019 was as follows:

	<i>Corporate 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	164,595	40,743	205,338
Other operating income	69,425	6,978	76,403
Operating expenses	(104,577)	(53,608)	(158,185)
Net impairment losses	(72,426)	(15,424)	(87,850)
Profit / (loss) for the period	<u>57,017</u>	<u>(21,311)</u>	<u>35,706</u>
Capital expenditure - Property and equipment	<u>12,412</u>	<u>2,271</u>	<u>14,683</u>
At 30 June 2019			
Segment assets	<u>16,489,356</u>	<u>3,100,726</u>	<u>19,590,082</u>
Segment liabilities	<u>14,157,445</u>	<u>2,826,028</u>	<u>16,983,473</u>

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

16 RELATED PARTY TRANSACTIONS

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

The significant balances outstanding are as follows:

	<i>Unaudited</i> 30 June 2020 <i>AED'000</i>	<i>Audited</i> 31 December 2019 <i>AED'000</i> <i>Restated</i>
<i>Shareholders:</i>		
Due from banks	401	712
Due to banks	2,305	2,566
Medium term borrowings	-	165,263
Commitments and contingencies	5,285	5,285
<i>Directors:</i>		
Loans and advances	110,122	110,588
Customer deposits	12,944	3,294
Commitments and contingencies	45	45
<i>Other related entities of shareholders and directors:</i>		
Loans and advances	284,889	480,028
Investments	62,466	67,198
Due from banks	17	32
Due to other banks	265	665
Customer deposits	193,344	169,963
Commitments and contingencies	112,197	140,105
	<i>Unaudited</i> 30 June 2020 <i>AED'000</i>	<i>Audited</i> 31 December 2019 <i>AED'000</i>
<i>Key management personnel of the Bank:</i>		
Loans and advances	3,037	3,686
Customers' deposits	1,432	2,302
<i>Shareholders, directors, their related entities and key management personnel:</i>		
Accrued interest income	5,891	5,220
Accrued interest expense	3,005	3,946

16 RELATED PARTY TRANSACTIONS (continued)

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

	<i>Unaudited six months period ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	<i>AED'000</i>	<i>AED'000</i>
<i>Shareholders, directors and their related entities</i>		
Interest income	11,917	23,877
Interest expense	3,404	4,514
Loss from sale of investments	-	250
Purchase of investments	-	7,079
Sale of investments	-	14,509
	<i>Unaudited six months period ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	<i>AED'000</i>	<i>AED'000</i>
Number of key management personnel	13	10
Salaries and other short term benefits	8,777	6,979
Employees' end of service benefits	2,053	654
Total compensation to key management personnel	10,830	7,633
Interest income	56	42
Interest expense	1	13
	<i>Unaudited six months period ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	<i>AED'000</i>	<i>AED'000</i>
Expected credit loss – (charge) to / release from income statement	(6,772)	3,559

Terms and conditions of transactions with related parties

The above mentioned outstanding balances and transactions arose from the ordinary course of business and have been conducted on an arm's length basis. The interest charged to and by related parties is at normal commercial rates. Outstanding balances at year end are unsecured.

The Bank has leased office space in various premises owned by a related party. The property leases and associated expenses for the six months period ended 30 June 2020 amounted to AED 916,000 (30 June 2019: AED 2,332,000). The property rentals are negotiated each year at market rates.

The Bank has granted relief vide delayed payments amounting to AED 241,316,000 on total outstanding of AED 384,351,000 due from related parties during the period under the economic incentive programme of the UAE Central Bank (see note 19).

United Arab Bank P.J.S.C.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months period ended 30 June 2020 (Unaudited)

16 RELATED PARTY TRANSACTIONS (continued)

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

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Gross carrying amount				
As at 31 December 2019	344,934	249,368	-	594,302
Net of new assets originated and assets repaid	(80,379)	(115,875)	-	(196,254)
Write-offs				
Transferred from Stage 1	(750)	750	-	-
Transferred from Stage 2	-	-	-	-
Transferred from Stage 3	-	-	-	-
As at 30 June 2020	263,805	134,243	-	398,048

	<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 2018	303,020	262,302	-	565,322
Net of new assets originated and assets repaid	6,465	22,515	-	28,980
Write-offs	-	-	-	-
Transferred from Stage 1	-	-	-	-
Transferred from Stage 2	35,449	(35,449)	-	-
Transferred from Stage 3	-	-	-	-
As at 31 December 2019	344,934	249,368	-	594,302

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 2019	5,198	4,188	-	9,360
Changes due to provisions recognized in the opening balance that have:				
Transferred to 12 month ECL	(176)	176	-	-
Charge to income statement	218	6,492	-	6,772
As at 30 June 2020	5,304	10,855	-	16,159

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Balance as at 31 December 2018	1,609	4,564	-	6,173
Charge to income statement	3,589	(375)	-	3,214
As at 31 December 2019	5,198	4,189	-	9,387

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 2020				
Investments	3,336,588	-	543	3,337,131
Derivative assets	-	12,123	-	12,123
	<u>3,336,588</u>	<u>12,123</u>	<u>543</u>	<u>3,349,254</u>
Derivative liabilities	-	268,966	-	268,966
31 December 2019				
Investments	3,483,970	-	543	3,484,513
Derivative assets	-	25,163	-	25,163
	<u>3,483,970</u>	<u>25,163</u>	<u>543</u>	<u>3,509,676</u>
Derivative liabilities	-	135,503	-	135,503

Financial instruments not recorded at fair value

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

The fair value of the quoted debt instruments at amortised cost as at 30 June 2020 amounted to AED Nil (31 December 2019: AED 18,247,000). The fair value determination of the quoted debt instruments will fall under level 1 category wherein fair value is determined based on inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

18 DERIVATIVES

As at 30 June 2020, the Bank held the following interest rate swaps as hedging instruments in fair value hedges of interest rate risk, along with amounts relating to hedged items:

	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 June 2020							
Hedge of investments	-	(263,287)	2,152,262	-	36,725	1,118,163	997,375
31 December 2019							
Hedge of investments	-	(120,736)	2,159,177	-	36,725	826,050	1,296,402

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 2,283,266,000 (2019: AED 2,291,282,000). These hedged items comprise of debt instruments which are held as FVOCI.

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

	30 June 2020		30 June 2019	
	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	(142,551)	(7,163)	(132,481)	(8,455)
On hedged items	135,388		124,026	

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 aggregate value of all the measures adopted till date by the CBUAE is AED 256 billion. The Bank has also participated in the scheme of CBUAE.

In line with the IASB guidance issued on 27th March 2020, the CBUAE, Dubai Financial Services Authority of the DIFC (DFSA) and Financial Services Regulatory Authority of the ADGM (FSRA) also introduced a joint guidance on 22 April 2020 which stipulates the following considerations while measuring ECL:

- Temporary moratorium on payments, or a waiver of a breach of covenant in itself is not considered an SICR trigger in the current environment, therefore
- For the duration of the COVID-19 pandemic, aside from scenario inputs to be considered gradually, CBUAE does not expect any re-calibration of the macro models
- The Bank distinguishes between obligors whose long-term credit risk is unlikely to be significantly affected by the COVID-19 from those who may be more permanently impacted. These factors are considered to determine whether there is a case of SICR

19 RISK MANAGEMENT (continued)**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. Notwithstanding this, recognizing that the outbreak is expected to have an impact on the macro-economic environment beyond reasonable doubt, the Bank has assessed the impact of an increase in probability for the pessimistic scenario and removal of any upside scenario in the ECL measurement on as follows:

Scenario	Assigned probabilities	Assigned probabilities
	Pre COVID-19	Post COVID-19
Base	72%	40%
Upside	14%	20%
Downside	14%	40%

These changes in the assigned probabilities of the macroeconomic scenario and the management overlays resulted in additional ECL of AED 48 million for the six month period ended 30 June 2020. Overlays are judgmental and the Bank will continue to reassess the impact of these on a regular basis.

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 Stage 2.

19 RISK MANAGEMENT (continued)

Analysis of customers benefitting from payment deferrals

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

30 June 2020	<i>Wholesale banking AED'000</i>	<i>Retail banking AED'000</i>	<i>Total AED'000</i>
Group 1			
Loans and advances	1,338,871	731,378	2,070,249
Less: Expected credit losses	(62,396)	(14,586)	(76,982)
	<u>1,276,475</u>	<u>716,792</u>	<u>1,993,267</u>
Group 2			
Loans and advances	236,188	14,784	250,972
Less: Expected credit losses	(26,567)	(1,236)	(27,803)
	<u>209,621</u>	<u>13,548</u>	<u>223,168</u>
Total			
Loans and advances	1,575,059	746,162	2,321,221
Less: Expected credit losses	(88,963)	(15,822)	(104,785)
	<u>1,486,096</u>	<u>730,340</u>	<u>2,216,436</u>
Number of customers / accounts	<u>46</u>	<u>1,463</u>	<u>1,509</u>

As at 30 June 2020, the Zero Cost Funding (ZCF) under the CBUAE TESS program availed by the Bank amounts to AED 193,810,000. The total installment deferred on wholesale and retail banking customers amounts to AED 449,110,000 which is equivalent to the full amount of the approved limit of ZCF for the Bank by CBUAE under the TESS program.

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

Loans and advances	<i>Stage 1 AED'000</i>	<i>Stage 2 AED'000</i>	<i>Stage 3 AED'000</i>	<i>Total AED'000</i>
As at 31 December 2019	1,652,226	622,153	3,250	2,277,629
Net of new assets originated and assets repaid	52,836	(9,244)	-	43,592
Write-offs	-	-	-	-
Transferred from Stage 1	85,947	(85,947)	-	-
Transferred from Stage 2	(55,344)	58,594	(3,250)	-
Transferred from Stage 3	-	-	-	-
As at 30 June 2020	<u>1,735,665</u>	<u>585,556</u>	<u>-</u>	<u>2,321,221</u>

19 RISK MANAGEMENT (continued)

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

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
As at 31 December 2019	21,246	71,435	-	92,681
Net of new assets originated and assets repaid	2,166	9,938	-	12,104
Write-offs	-	-	-	-
Transferred from Stage 1	(384)	384	-	-
Transferred from Stage 2	3,824	(3,824)	-	-
Transferred from Stage 3	-	-	-	-
As at 30 June 2020	26,852	77,933	-	104,785

20 CAPITAL ADEQUACY RATIO

	<i>Unaudited</i> <i>30 June</i> <i>2020</i>	<i>Audited</i> <i>31 December</i> <i>2019</i>
Common equity tier 1 ratio	13.2%	13.6%
Tier 1 capital ratio	13.2%	13.6%
Capital adequacy ratio	14.3%	14.7%

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 2020 until 31 December 2021. Upon full consumption of this capital relief, the minimum capital adequacy ratio requirement reduces to 11.5% (as opposed to 13.0% previously applicable) for reporting periods falling within the specified duration. The Bank continues to be in compliance with this revised minimum capital threshold requirement as per CBUAE guidelines for the period ended 30 June 2020.

21 COMPARATIVE FIGURES

Certain comparative figures have been reclassified and restated where appropriate to conform to the presentation and accounting policies adopted in these financial statements.