IMPORTANT NOTICE

THE ATTACHED BASE PROSPECTUS MAY ONLY BE DISTRIBUTED TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S ("REGULATION S") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")) AND ARE OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the base prospectus attached to this electronic transmission and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached base prospectus (the "**Base Prospectus**"). In accessing the attached Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from Emirates Development Bank P.J.S.C. (the "**Bank**") as a result of such access.

Restrictions: NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. ANY SECURITIES TO BE ISSUED HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT IN CERTAIN TRANSACTIONS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THE ATTACHED BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON WITHOUT THE PRIOR WRITTEN CONSENT OF THE SOLE ARRANGER AND THE DEALERS (EACH AS DEFINED IN THE BASE PROSPECTUS BELOW) AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. DISTRIBUTION OR REPRODUCTION OF THE ATTACHED BASE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE SECURITIES LAWS OF OTHER JURISDICTIONS.

UNDER NO CIRCUMSTANCES SHALL THE ATTACHED BASE PROSPECTUS CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE SECURITIES IN ANY JURISDICTION IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL.

THE ATTACHED BASE PROSPECTUS IS NOT BEING DISTRIBUTED TO, AND MUST NOT BE PASSED ON TO, THE GENERAL PUBLIC IN THE UNITED KINGDOM. RATHER, THE COMMUNICATION OF THE ATTACHED BASE PROSPECTUS AS A FINANCIAL PROMOTION IS ONLY BEING MADE TO THOSE PERSONS FALLING WITHIN ARTICLE 12, ARTICLE 19(5) OR ARTICLE 49 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000, AS AMENDED (FINANCIAL PROMOTION) ORDER 2005, OR TO OTHER PERSONS TO WHOM THE ATTACHED BASE PROSPECTUS MAY OTHERWISE BE DISTRIBUTED WITHOUT CONTRAVENTION OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000, AS AMENDED OR ANY PERSON TO WHOM IT MAY OTHERWISE LAWFULLY BE MADE. THIS COMMUNICATION IS BEING DIRECTED ONLY AT PERSONS HAVING PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS AND ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS COMMUNICATION RELATES WILL BE ENGAGED IN ONLY WITH SUCH PERSONS. NO OTHER PERSON SHOULD RELY ON IT.

Confirmation of Your Representation: By accessing the attached Base Prospectus you confirm to the Sole Arranger and the Dealers (as defined in the attached Base Prospectus) and the Bank that: (i) you understand and agree to the terms set out herein; (ii) you are not a U.S. person (within the meaning of Regulation S), or acting for the account or benefit of any U.S. person, and that you are not in the United States, its territories and possessions; (iii) you consent to delivery of the attached Base Prospectus by electronic transmission; (iv) you will not transmit the attached Base Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the prior written consent of the Dealers; and (v) you acknowledge that you will make your own assessment regarding any credit, investment, legal, taxation or other economic considerations with respect to your decision to subscribe or purchase any of the Notes.

You are reminded that the attached Base Prospectus has been delivered to you on the basis that you are a person into whose possession the attached Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the attached Base Prospectus, electronically or otherwise, to any other person and in particular to any U.S. person or to any U.S. address. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

If you received the attached Base Prospectus by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you received the attached Base Prospectus by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or a solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Dealers or such affiliate on behalf of the Bank in such jurisdiction.

Under no circumstances shall the attached Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the attached document who intend to subscribe for or purchase the Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in the attached Base Prospectus.

The attached Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Sole Arranger, the Dealers, the Bank nor any person who controls or is a director, officer, employee or agent of the Dealers, the Bank nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the attached Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Dealers.

The distribution of the attached Base Prospectus in certain jurisdictions may be restricted by law. Persons into whose possession the attached document comes are required by the Dealers and the Bank to inform themselves about, and to observe, any such restrictions.

BASE PROSPECTUS

مصرف الإمارات للتنمية
Emirates Development Bank

EMIRATES DEVELOPMENT BANK P.J.S.C.

(incorporated with limited liability in the Emirate of Abu Dhabi, the United Arab Emirates)

U.S.$3,000,000,000

Euro Medium Term Note Programme

Under this U.S.$3,000,000,000 Euro Medium Term Note Programme (the "**Programme**"), Emirates Development Bank P.J.S.C. ("**EDB**" and the "**Bank**") may, subject to compliance with all relevant laws, regulations and directives, from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Bank and the relevant Dealer(s) (as defined below).

Notes may be issued in bearer or registered form (respectively, "**Bearer Notes**" and "**Registered Notes**"). The maximum aggregate principal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.$3,000,000,000 (or its equivalent in other currencies calculated as provided in the Dealer Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the dealers specified under "*Overview of the Programme*" and any additional dealer(s) appointed under the Programme from time to time by the Bank (each a "**Dealer**" and together, the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the "**relevant Dealer(s)**" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of the principal risk factors that may affect the ability of the Bank to fulfil its obligations under the Notes, see "*Risk Factors*".

This Base Prospectus has been approved by the Dubai Financial Services Authority (the "**DFSA**") under Rule 2.6 of the DFSA's Markets Rules (the "**Markets Rules**") and is therefore an Approved Prospectus for the purposes of Article 14 of DIFC Law No. 1 of 2012 (the "**Markets Law**"). Application has also been made to the DFSA for certain Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of securities (the "**DFSA Official List**") maintained by the DFSA and to Nasdaq Dubai for such Notes to be admitted to trading on Nasdaq Dubai.

References in this Base Prospectus to Notes being "**listed**" (and all related references) shall mean that such Notes have been admitted to trading on Nasdaq Dubai and have been admitted to the DFSA Official List.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Bank and the relevant Dealer. The Bank may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The DFSA does not accept any responsibility for the content of the information included in this Base Prospectus, including the accuracy or completeness of such information. The liability for the content of this Base Prospectus lies with the Bank. The DFSA has also not assessed the suitability of the Notes to which this Base Prospectus relates to any particular investor or type of investor. If you do not understand the contents of this Base Prospectus or are unsure whether the Notes to which this Base Prospectus relates are suitable for your individual investment objectives and circumstances, you should consult an authorised financial adviser.

Notice of the aggregate principal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined in "*Terms and Conditions of the Notes*") of Notes will be set out in a final terms document (the "**Final Terms**") which will be delivered to the DFSA and Nasdaq Dubai.

Whether or not each credit rating applied for in relation to relevant Tranches of Notes will be issued by a credit rating agency established in the European Union (the "**EU**") and registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**") will be disclosed in the applicable Final Terms.

The Bank has been assigned a credit rating of AA- by Fitch Ratings Ltd. ("**Fitch**") with a stable outlook. The Programme has been rated AA- by Fitch. The Emirate of Abu Dhabi has been assigned a credit rating of AA with a stable outlook by Fitch, Aa2 by Moody's Investors Service Ltd. ("**Moody's**") and AA by S&P Global Ratings Europe Limited ("**S&P**"), each with a stable outlook. The United Arab Emirates has been assigned a credit rating of Aa2 with a stable outlook by Moody's Investors Service Singapore Pte. Ltd. ("**Moody's Singapore**"). Moody's Singapore is not established in the EU and has not applied for registration under the CRA Regulation. The rating has been endorsed by Moody's in accordance with the CRA Regulation. Each of Fitch, Moody's and S&P is established in EU and is registered under the CRA Regulation. As such, each of Fitch and Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

Where a Series of Notes is rated, such rating will be specified in the applicable Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Amounts payable on Floating Rate Notes will be calculated by reference to one of EURIBOR, LIBID, LIBOR, LIMEAN, SHIBOR, HIBOR, SIBOR, EIBOR, SAIBOR, BBSW, AUD LIBOR, JPY LIBOR, PRIBOR, CNH HIBOR, TRLIBOR or TRYLIBOR, TIBOR, GBP LIBOR, CHF LIBOR, CAD LIBOR, NZD LIBOR, DKK LIBOR, SEK LIBOR, MIBOR or BKBM as specified in the applicable Final Terms. As at the date of this Base Prospectus, the administrators of LIBOR, AUD LIBOR, JPY LIBOR, GBP LIBOR, CHF LIBOR, CAD LIBOR, NZD LIBOR, DKK LIBOR, SEK LIBOR and MIBOR are included in the register of administrators of the European Securities and Markets Authority ("**ESMA**") under Article 36 of the Regulation (EU) No. 2016/1011 (the "**Benchmarks Regulation**"). As at the date of this Base Prospectus, the administrators of EURIBOR, LIBID, LIMEAN, SHIBOR, HIBOR, SIBOR, EIBOR, SAIBOR, PRIBOR, CNH HIBOR, TRLIBOR or TRYLIBOR, TIBOR, BBSW and BKBM are not included in ESMA's register of administrators under the Benchmarks Regulation. As far as the Bank is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that the European Money Markets Institute, the Treasury Markets Association of Banks, the Association of Banks in Singapore, the UAE Central Bank (the "**Central Bank**"), ASX Limited, the Czech Financial Benchmark Facility s.r.o., the Banks Association of Turkey, the JBA TIBOR Administration, the New Zealand Financial Markets Association and the Financial Benchmarks India Private Ltd, are not currently required to obtain authorisation/registration (or, if located outside the EU, recognition, endorsement or equivalence).

Sole Arranger
Emirates NBD Capital

Dealers

Emirates NBD Capital | **Standard Chartered Bank**

The date of this Base Prospectus is 18 February 2019

IMPORTANT NOTICES

This Base Prospectus complies with the requirements in Part 2 of the Markets Law and Chapter 2 of the Markets Rules and comprises a base prospectus for the purposes of giving information with regard to the Bank and the Notes which, according to the particular nature of the Bank and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Bank.

Notes issued under the Programme are issued in tranches (each tranche of Notes being a "**Tranche**"). Each Tranche of Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" (the "**Conditions**") as completed by a document specific to such Tranche called the final terms (the "**Final Terms**") as described under "*Final Terms*" below.

This Base Prospectus must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Notes which is the subject of Final Terms, must be read and construed together with the applicable Final Terms.

Each Tranche of Notes may be rated or unrated. Such rating will be specified in the applicable Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Please also refer to "*Risks related to the market generally – Credit ratings may not reflect all risks*" in the Risk Factors section of this Base Prospectus.

The Bank accepts responsibility for the information contained in this Base Prospectus and the Final Terms (as defined below) for each Tranche (as defined herein) of Notes issued under the Programme and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Where information has been sourced from a third party, the Bank confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of any third party information contained in this Base Prospectus is stated where such information appears in this Base Prospectus. Certain information under the heading "*General Information – Clearing of the Notes*" has been obtained from the clearing systems referred to herein.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Bank or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Bank, the Sole Arranger, the Dealers or any of the Agents.

The Sole Arranger, the Dealers and the Agents (each as defined herein) have not independently verified the information contained or incorporated by reference herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Sole Arranger, the Dealers and the Agents as to the accuracy or completeness of the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Bank in connection with the Programme. None of the Sole Arranger, the Dealers or the Agents accept any liability in relation to the information contained in this Base Prospectus, information incorporated by reference or any other information provided by the Bank in connection with the Programme and none of the Sole Arranger, the Dealers or the Agents accept any responsibility for any acts or omissions of the Bank or any other person (other than the relevant Dealers) in connection with the issue and offering of any Notes. To the fullest extent permitted by law, none of the Sole Arranger or Dealers accepts any responsibility for the contents of this Base Prospectus or for any other statement, made or purported to be made by the Sole Arranger or a Dealer or on its behalf in connection with the Bank, or the issue and offering of any Notes. The Sole Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Base Prospectus or any such statement.

Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Bank since the date hereof or, if later, the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The Sole Arranger, the Dealers and the Agents expressly do not undertake to review the financial condition or affairs of the Bank during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

No comment is made or advice given by the Bank, the Sole Arranger, the Dealers or the Agents in respect of taxation matters relating to any Notes or the legality of the purchase of Notes by an investor under applicable or similar laws.

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Bank and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Notes, see "*Subscription and Sale*". In particular, the Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States and are subject to U.S. tax law requirements. The Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulations S under the Securities Act ("**Regulation S**")), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Bank, the Sole Arranger, the Dealers and the Agents do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering.

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Bank, the Sole Arranger, the Dealers or any of them that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Bank.

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed U.S.$3,000,000,000 (and, for this purpose, any Notes denominated in another currency shall be translated into U.S. dollars at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Dealer Agreement)). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplementary prospectus;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(d) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall investment portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal and tax advisers to determine whether and to what extent: (1) the Notes are legal investments for it; (2) the Notes can be used as collateral for various types of borrowing; and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules. In addition, potential investors should consult their own tax advisers on how the rules relating to the U.S. Internal Revenue Code of 1986, as amended ("**FATCA**") may apply to payments they receive under the Notes.

MiFID II product governance / target market

The Final Terms in respect of any Notes may include a legend entitled "MiFID II product governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Sole Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

In relation to investors in the Kingdom of Bahrain, Notes issued in connection with this Base Prospectus and related offering documents may only be offered in registered form to existing account holders and accredited investors as defined by the Central Bank of Bahrain ("**CBB**") in the Kingdom of Bahrain where such investors make a minimum investment of at least U.S.$100,000 or any equivalent amount in another currency or such other amount as the CBB may determine.

This Base Prospectus does not constitute an offer of securities in the Kingdom of Bahrain pursuant to the terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Base Prospectus and related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no Notes may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Base Prospectus or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase securities, whether directly or indirectly, to persons in the Kingdom of Bahrain, other than to accredited investors for an offer outside the Kingdom of Bahrain.

The CBB has not reviewed, approved or registered this Base Prospectus or related offering documents and it has not in any way considered the merits of the Notes to be offered for investment, whether in or outside the Kingdom of Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this Base Prospectus and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this

Base Prospectus. No offer of Notes will be made to the public in the Kingdom of Bahrain and this Base Prospectus must be read by the addressee only and must not be issued, passed to, or made available to the public generally.

NOTICE TO RESIDENTS OF MALAYSIA

Any Notes to be issued under the Programme may not be offered for subscription or purchase and no invitation to subscribe for or purchase such Notes in Malaysia may be made, directly or indirectly, and this Base Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within the categories set out in Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the Capital Market and Services Act 2007 of Malaysia as may be amended and/or varied from time to time and subject to any amendments to the applicable laws from time to time. The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Bank and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Base Prospectus.

NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

This Base Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "**Capital Market Authority**").

The Capital Market Authority does not make any representations as to the accuracy or completeness of this Base Prospectus and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Prospectus. Prospective purchasers of Notes issued under the Programme should conduct their own due diligence on the accuracy of the information relating to the Notes. If you do not understand the contents of this Base Prospectus, you should consult an authorised financial adviser.

NOTICE TO RESIDENTS OF THE STATE OF QATAR

Any Notes to be issued under the Programme will not be offered, sold or delivered, at any time, directly or indirectly, in the State of Qatar (including the Qatar Financial Centre) in a manner that would constitute a public offering. This Base Prospectus has not been and will not be reviewed or approved by, or registered with, the Qatar Central Bank, the Qatar Stock Exchange, the Qatar Financial Centre Regulatory Authority or the Qatar Financial Markets Authority in accordance with their regulations or any other regulations in the State of Qatar (including the Qatar Financial Centre). The Notes are not and will not be traded on the Qatar Stock Exchange. The Notes and interests therein will not be offered to investors domiciled or resident in the State of Qatar (including the Qatar Financial Centre) and do not constitute debt financing in the State of Qatar (including the Qatar Financial Centre) under the Commercial Companies Law No. (11) of 2015 or otherwise under the laws of the State of Qatar (including the Qatar Financial Centre).

IMPORTANT – EEA RETAIL INVESTORS

If the Final Terms in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a "**retail investor**" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE) (THE "SFA")

In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 (the "**CMP Regulations 2018**"), the Bank has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Historical financial statements

The financial statements relating to the Bank and included in this Base Prospectus are:

- the unaudited condensed consolidated interim financial statements as at and for the nine months ended 30 September 2018 (the "**Interim Financial Statements**");

- the audited financial statements as at and for the year ended 31 December 2017 (the "**2017 Financial Statements**"); and

- the audited financial statements as at and for the year ended 31 December 2016 (the "**2016 Financial Statements**" and, together with the 2017 Financial Statements, the "**Annual Financial Statements**").

The Interim Financial Statements and the Annual Financial Statements are together referred to in this Base Prospectus as the "**Financial Statements**".

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("**IFRS**") and applicable requirements of the Federal Decree Law No. 7 issued on 18 September 2011.

The Interim Financial Statements have been prepared on an ongoing basis in accordance with IAS 34 *Interim Financial Reporting* and the requirements of applicable laws in the UAE. They do not include all the information and disclosures required in the Annual Financial Statements and should be read in conjunction with the 2017 Financial Statements.

The Bank's financial year ends on 31 December and references in this Base Prospectus to **2015**, **2016** and **2017** are to the 12 month period ending on 31 December in each such year.

Comparability of information

Certain comparative information for 2016 appearing in the 2017 Financial Statements has been re-classified by the Bank to conform to the presentation in the 2017 Financial Statements. This reclassification relates to the presentation in the statement of profit or loss and other comprehensive income of the gain or loss recorded on the revaluation of investment property and financial investments at fair value through profit or loss ("**FVTPL**"). In 2017, this gain or loss was presented separately whereas in prior years it was included in "Investment income" and "other income". See "*Selected financial information*" which identifies the line items affected. The statement of profit or loss and other comprehensive income data for 2015 in "*Selected financial information*" has been re-presented in the same manner. Reflecting this re-presentation in 2017, all statement of profit or loss and other comprehensive income data for 2016 in this Base Prospectus has been derived from the 2017 Financial Statements and all statement of profit or loss and other comprehensive income data for 2015 in this Base Prospectus has been re-presented to conform to the presentation in the 2017 Financial Statements.

IFRS 9 *Financial Instruments* became effective for accounting periods beginning on or after 1 January 2018. Accordingly, the Group has applied IFRS in the Interim Financial Statements. Note 19 to the Interim

Financial Statements sets out the impact of the implementation of IFRS 9 on the Bank. See also "*Financial review—Principal factors affecting results of operations—Impact of IFRS 9*".

Auditors

The Interim Financial Statements have not been subject to any audit, although they have been reviewed by KPMG Lower Gulf Limited, independent auditors (the "**Auditors**"), in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. The Auditors issued an unqualified review report on the Interim Financial Statements.

The review report in respect of the Interim Financial Statements contains the following emphasis of matter:

> "We draw attention to Article No. 6 of the Federal law Decree No. 7 issued on 18 September 2011 which requires the paid up capital of the Bank to be AED 5 billion. The Bank is not in compliance with the Article as at 30 September 2018. Our conclusion is not modified in this regard.".

The Annual Financial Statements have been audited by the Auditors, in accordance with International Standards on Auditing, who have issued unqualified reports on the Annual Financial Statements.

The audit report in respect of the 2017 Financial Statements contains the following emphasis of matter:

> "Without qualifying our opinion, we draw attention to Article No 6 of the Federal Law Decree No (7) which requires the paid up capital of the Bank to be AED 5 billion. The Bank is not in compliance with the Article as at 31 December 2017.".

The audit report in respect of the 2016 Financial Statements contains the following emphasis of matter:

> "Without qualifying our opinion, we draw attention to Article No 6 of the Federal Law Decree No (7) which requires the paid up capital of the Bank to be AED 5 billion. The Bank is not in compliance with the Article as at 31 December 2016.".

As of the date of this Base Prospectus, the paid up capital of the Bank is AED 3.56 billion. Based on guidance received from the Ministry of Finance, the Bank expects its share capital to be fully paid up to AED 5 billion by the end of 2021.

PRESENTATION OF OTHER INFORMATION

Defined terms and currencies

Unless otherwise indicated in this Base Prospectus, all references to:

- "**Abu Dhabi**" are to the Emirate of Abu Dhabi;
- "**billion**" are to a thousand million;
- "**Dubai**" are to the Emirate of Dubai;
- "**GCC**" are to the Gulf Co-Operation Council;
- a "**Member State**" are to a Member State of the European Economic Area;
- the "**MENA region**" are to the Middle East and North Africa region;
- the "**UAE**" are to the United Arab Emirates;

- the "**UAE Government**" are to the federal government of the UAE;
- "**U.S. dollars**" and "**U.S.$**" are to the lawful currency of the United States of America;
- "**GBP**", "**£**" and "**pounds sterling**" are to the lawful currency of the United Kingdom;
- "**AED**" and "**dirham**" are to the lawful currency of the UAE;
- "**euro**" and "**€**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended;
- "**MiFID II**" are to Directive 2014/65/EU of the European Union on markets in financial instruments, as amended;
- "**U.S.**" and "**United States**" are to the United States of America;
- "**Saudi Arabia**" and the "**Kingdom of Saudi Arabia**" are to the Kingdom of Saudi Arabia; and
- "**Qatar**" and the "**State of Qatar**" are to the State of Qatar.

The dirham has been pegged to the U.S. dollar since 22 November 1980. The mid-point between the official buying and selling rates for the dirham is at a fixed rate of AED 3.6725 = U.S.$1.00. All U.S. dollar translations of dirham amounts appearing in this Base Prospectus have been translated at this fixed exchange rate. Such translations should not be construed as representations that dirham amounts have been or could be converted into U.S. dollars at this or at any other rate of exchange.

Unless otherwise indicated, the financial information contained in this Base Prospectus has been expressed in dirham. The Group's functional currency is dirham and the Group prepares its financial statements in dirham.

Certain publicly available information

Certain information under the headings "*Risk factors*", "*Description of the Bank*", and "*Overview of the United Arab Emirates*" has been extracted from information provided by:

- the Central Bank, Statistics Centre – Abu Dhabi ("**SCAD**"), the Organization of the Petroleum Exporting Countries ("**OPEC**") and the government of Abu Dhabi, in the case of "*Risk factors*";
- the Central Bank, in the case of "*Description of the Bank*"; and
- the UAE Federal Competitiveness and Statistics Authority (the "**FCSA**"), the International Monetary Fund (the "**IMF**"), OPEC and the Central Bank, in the case of "*Overview of the United Arab Emirates*".

In each case, the relevant source of such information is specified where it appears under those headings. None of the Sole Arranger, the Dealers nor the Bank accepts responsibility for the factual correctness of any such statistics or information but the Bank accepts responsibility for accurately reproducing such statistics and, so far as the Bank is aware and have been able to ascertain from such statistics, no fact has been omitted which would render the reproduced information inaccurate or misleading.

Statistical information relating to the UAE and Abu Dhabi included in this Base Prospectus has been derived from official public sources. All such statistical information may differ from that stated in other sources for a variety of reasons, including the use of different definitions and cut-off times. This data may subsequently be revised as new data becomes available and any such revised data will not be circulated by the Bank to investors who have purchased any Notes.

Where information has not been independently sourced, it is the Bank’s own information.

No incorporation of website information

The Bank's website is www.edb.ae. The information on this website or any other website mentioned in this Base Prospectus or any website directly or indirectly linked to these websites has not been verified and is not incorporated by reference into this Base Prospectus, and investors should not rely on it.

Rounding

Certain figures and percentages in this Base Prospectus have been rounded. Accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them. Where used in tables, the figure "0" means that the data for the relevant item has been rounded to zero and the symbol "—" means that there is no data in respect of the relevant item.

Certain Conventions

All references in this Base Prospectus to "**U.S. dollars**", "**U.S.$**" and "**$**" refer to United States dollars being the legal currency for the time being of the United States of America; all references to "**JPY**" are to Japanese yen, the lawful currency of Japan; and all references to "**CHF**" are to Swiss francs, the lawful currency of Switzerland.

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

CONTENTS

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, is supplemented by the applicable Final Terms.

Words and expressions defined in "*Terms and Conditions of the Notes*" and in "*Forms of the Notes*" shall have the same meanings in this overview.

The Bank:......................	Emirates Development Bank P.J.S.C. ("**EDB**" or the "**Bank**") is a public joint stock company fully owned by the UAE Government as per the Federal Decree Law No. 7 (the "**Law**") issued on 18 September 2011 and is the product of a merger (the "**Merger**") of the operations and assets and liabilities of the Emirates Industrial Bank and the Emirates Real Estate Bank, both existing federal banks that were established under separate laws ("**the merged banks**"). The Law was signed by the President of the United Arab Emirates and became effective from 30 September 2011. The registered office address of the Bank is P.O. Box 51515, Abu Dhabi, UAE. The Bank's Legal Entity Identifier ("**LEI**") is 5493002OSL5GLN4HID57. See "*Description of the Bank*".
Description:...................	Euro Medium Term Note Programme.
Risk Factors:.................	There are certain factors that may affect the Bank's ability to fulfil its obligations under the Notes issued under the Programme. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes issued under the Programme. These include certain risks relating to the structure of a particular Series of Notes and certain market risks. See "*Risk Factors*".
Sole Arranger:	Emirates NBD Bank P.J.S.C.
Dealers:..........................	Emirates NBD Bank P.J.S.C. and Standard Chartered Bank and any other Dealer appointed from time to time by the Bank either generally in respect of the Programme or in relation to a particular Tranche of Notes.
Fiscal Agent:	Citibank N.A., London Branch.
Registrar:	Citigroup Global Markets Europe AG.
Final Terms:	Notes issued under the Programme may be issued pursuant to this Base Prospectus and associated Final Terms. The terms and conditions applicable to any particular Tranche of Notes will be the Conditions as completed by the applicable Final Terms.
Listing and Trading:	Application has been made to the DFSA for the Notes issued under the Programme to be admitted to the DFSA Official List and for such Notes to be admitted to trading on Nasdaq Dubai. Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Bank and the relevant Dealer(s) in relation to the relevant Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

The Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Clearing Systems:......... Clearstream Banking S.A. ("**Clearstream, Luxembourg**") and Euroclear Bank SA/NV ("**Euroclear**").

Initial Programme Amount:...................... Up to U.S.$3,000,000,000 (or its equivalent in other currencies) aggregate principal amount of Notes outstanding at any one time.

The Bank may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.

Issuance in Series: .... Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the amount and date of the first payment of interest thereon (if any) and the date from which interest starts to accrue), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will comprise, where necessary, the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and principal amount of the Tranche), will be identical to the terms of other Tranches of the same Series and will be completed in the applicable Final Terms.

Forms of Notes:............ Notes may be issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**").

In respect of each Tranche of Bearer Notes, the Bank will initially deliver a Temporary Global Note or (if so specified in the applicable Final Terms in respect of Notes to which the TEFRA C Rules apply (as so specified in such Final Terms)) a Permanent Global Note (each as described herein). Such Global Note will be deposited on or around the relevant issue date therefor with Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system. Interests in each Temporary Global Note will, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership, be exchangeable for interests in a Permanent Global Note or, if so specified in the applicable Final Terms, for Definitive Notes (as described herein) in bearer form. Interests in each Permanent Global Note will be exchangeable for Definitive Notes in bearer form. Definitive Notes in bearer form will, if interest-bearing, have Coupons attached and, if appropriate, Talons (each as described herein).

In respect of each Tranche of Registered Notes, the Bank will deliver to each holder Registered Notes which will be recorded in the register which the Bank shall procure to be kept by the Registrar. A Global Registered Note may be registered in the name of a nominee for one or more clearing systems. Registered Notes will not be represented upon issue by a Temporary Global Note and may not be exchanged for Bearer Notes.

Currencies:................... Notes may be denominated in U.S. dollars, euro, AED or any other currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in any currency or currencies other than the currency in which such Notes are denominated.

Status of the Notes:....... Notes may be issued on a subordinated or unsubordinated basis, as specified in the applicable Final Terms.

Issue Price:................... Notes may be issued at any price, as specified in the applicable Final Terms. The price and amount of Notes to be issued under the Programme will be determined by the Bank and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

Maturities: .... Any maturity is subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Where Notes have a maturity of less than one year and either: (a) the issue proceeds are received by the Bank in the United Kingdom; or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Bank in the United Kingdom, such Notes must: (i) have a minimum redemption value of GBP100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of FSMA by the Bank.

Redemption:................. Subject to any purchase and cancellation or early redemption, the Notes will be redeemed at par.

Optional Redemption:.. Notes may be redeemed before their stated maturity at the option of the Bank (either in whole or in part) and/or the Noteholders (including following the occurrence of a Change of Ownership Event as described below) to the extent (if at all) specified in the applicable Final Terms.

Change of Ownership: If so specified in the applicable Final Terms, each investor will have the right to require the redemption of its Notes if a Change of Ownership Event occurs.

Tax Redemption:.......... Except as described in "*Optional Redemption*" above, early redemption will only be permitted for tax reasons as described in Condition 10(b) (*Redemption and Purchase – Redemption for tax reasons*).

Interest: .... Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.

Denominations:............ The Notes will be issued in such denominations as may be agreed between the Bank and the relevant Dealer(s) and as specified in the applicable Final Terms subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. The minimum denomination of each Note shall be $100,000 (or, if the Notes are denominated in a currency other than United States dollars, the equivalent amount in such currency as at the date of the issue of the Notes).

Fixed Rate Notes: .... Fixed interest will be payable in arrear on the date or dates in each year specified in the applicable Final Terms.

Floating Rate Notes:..... Floating Rate Notes will bear interest determined separately for each Series; as follows:

(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of Notes of the relevant Series; or

(ii) on the basis of the reference rate set out in the applicable Final Terms.

Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Bank and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Bank and the relevant Dealer.

The Margin (if any) relating to such Floating Rate Notes will be agreed between the Bank and the relevant Dealer for such Series of Floating Rate Notes.

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both. Unless otherwise stated in the applicable Final Terms, the minimum interest rate for a Floating Rate Note shall be deemed to be zero.

Negative Pledge: .... The Notes will have the benefit of a negative pledge as described in Condition 6 (*Negative Pledge*), which only applies to Senior Notes.

Cross-Default:............... The Notes will have the benefit of a cross-default as described in Condition 14(a)(iii) (*Events of Default – Events of Default for Senior Notes – Cross-Acceleration of Bank*), which only applies to Senior Notes.

Taxation:....................... All payments in respect of Notes will be made free and clear of withholding taxes imposed by the United Arab Emirates unless the withholding is required by law. In that event, the Bank will (subject as provided in Condition 13 (*Taxation*)) pay such additional amounts as will result in the Noteholders receiving such net amounts as they would have received in respect of such Notes had no such withholding been required.

Governing Law:............ English law.

Waiver of Immunity: .. The Bank has irrevocably agreed that, should any Proceedings (as defined in Condition 22 (*Governing Law and Jurisdiction*)) be taken anywhere (whether for any injunction, specific performance, damages or otherwise), no immunity (to the extent that it may at any time exist, whether on the grounds of sovereignty or otherwise) in relation to those Proceedings (including without limitation, immunity from the jurisdiction of any court or tribunal, suit, service of process, injunctive or other interim relief, any order for specific performance, any order for recovery of land, any attachment (whether in aid of execution, before judgment or otherwise) of its assets, any process for execution of any award or judgment or other legal process) shall be claimed by it or on its behalf or with respect to its assets, any such immunity being irrevocably waived. The Bank has irrevocably agreed that it and its assets (irrespective of its use or intended use) are, and shall be, subject to such Proceedings, attachment or execution in respect of its obligations under the Notes. Notwithstanding the foregoing, the Bank makes no representation as to whether Article 247 of Federal Law No. 11 of 1992 regarding the Law of Civil Procedures will apply to its assets, revenue or property or whether such law can be waived.

Enforcement of Notes in Global Form: .... In the case of Global Notes, individual investors' rights against the Bank will be governed by the Deed of Covenant (as defined herein), a copy of which will be available for inspection at the specified office of the Fiscal Agent.

Ratings: .... The ratings of any Tranche of Notes to be issued under the Programme which is to be rated and the credit rating agency issuing such rating will be specified in the applicable Final Terms.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued or endorsed by a credit rating agency established in the EU and registered under the CRA Regulation (or is endorsed and published or distributed by subscription by such a credit rating agency in accordance with the CRA Regulation).

Selling Restrictions:...... For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the Dubai International Financial Centre, the European Economic Area, Hong Kong, Japan, the Kingdom of Bahrain, the Kingdom of Saudi Arabia, Malaysia, Singapore, the State of Qatar (including the Qatar Financial Centre), the UAE (excluding the Dubai International Financial Centre), the United Kingdom and the United States of America and such other restrictions as may be required in connection with the offering and sale of the Notes, see "*Subscription and Sale*" below.

Category 2 selling restrictions will apply for the purposes of Regulation S under the United States Securities Act of 1933, as amended.

The Notes will be issued in compliance with United States Treasury Regulation §1.163-5(c)(2)(i)(D) (or any substantially identical successor U.S. Treasury regulation section including, without limitation, substantially identical regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (the "**D Rules**") unless (i) the applicable Final Terms states that Notes are issued in compliance with United States Treasury Regulation §1.163-5(c)(2)(i)(C) (or any substantially identical successor U.S. Treasury regulation section including, without limitation, substantially identical regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (the "**C Rules**") or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration required obligations" under the United States Tax Equity Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the applicable Final Terms as a transaction to which TEFRA is not applicable.

RISK FACTORS

The Bank believes that the following factors may affect its ability to fulfil its obligations in respect of Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and the Bank is not in a position to express a view on the likelihood of any such contingency occurring. The order in which the risks are presented below does not necessarily reflect the likelihood of their occurrence or the magnitude of their potential impact on the Bank. In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

The Bank believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Bank to repay principal, pay interst or other amounts or fulfil other obligations on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Bank based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

The occurrence of any of the risks described below, or any other risks not currently known to the Bank, could have a material adverse affect on the Bank's financial condition, results of operations, liquidity and future prospects and could affect the Bank's ability to make payments under the Transaction Documents and/or the market price of any Notes issued under the Programme.

Prospective investors should also consult their own financial and legal advisers about risks associated with an investment in any Notes issued under the Programme and the suitability of investing in such Notes in light of their particular circumstances, without relying on the Bank. Prospective investors are advised to make, and will be deemed by the Bank to have made, their own investigations in relation to such factors before making any investment decision.

Words and expressions defined in "Terms and Conditions of the Notes" have the same meanings in this section.

FACTORS THAT MAY AFFECT THE BANK'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE PROGRAMME

The Bank has a relatively short operating history

The Bank was formed on 30 September 2011 and officially launched in June 2015. Accordingly, the Bank's business and prospects should be considered in light of the risks, uncertainties, expenses and difficulties encountered by a business with a relatively short operating history.

The Bank's strategy, future operations and performance are subject to a number of risks that may affect the execution of its growth plans

Being the only development bank in the UAE, the Bank aims at filling the gap for financing infrastructure and housing projects as well as for small and medium enterprises ("**SME**"s) in the UAE. The credit exposure in these sectors may present particular challenges to the Bank, particularly in times of economic slowdown. In addition, the lower profit margins resulting from the soft interest or profit rates offered could also have a material impact on the Bank's long-term financial sustainability.

The Bank aims to be a key contributor to the UAE Vision 2021 (the "**UAE Vision**"), by connecting all SME ecosystem stakeholders through a unified platform nationwide. The Bank still has only two branches and is still undertaking a digital transformation. In addition, its brand has not yet been fully established. All of these factors could affect the rate at which it achieves this strategic objective, and the actual value-addition by the Bank for the national SME agenda could be considerably lower than it currently anticipates.

The Bank's strategy is also to provide support to Emiratis seeking to acquire a home, by offering home loans on softer terms than those of commercial banks. However, the Bank is exposed to increased delinquencies in this regard to the extent that its portfolio becomes concentrated on this sector.

The ability to acquire, attract and retain talent is also critical for the Bank to fully execute its strategy. See "*—The Bank may not be able to recruit and retain qualified and experienced personnel, which could have an adverse effect on its business and its ability to implement its strategy*" below.

The Bank's business, financial condition, results of operations and prospects are and will continue to be affected by economic conditions and any deterioration in economic conditions in the UAE could materially adversely impact the Bank

The Bank's business is focussed on the UAE and its results of operations are affected by economic conditions in the UAE which, in turn, may be affected by regional and global economic conditions. As at 31 December 2017, 98.4 per cent. of the Bank's credit risk was concentrated in the UAE.

The UAE's economy is significantly impacted by international oil prices. Since mid-2014 and based on data published by OPEC, oil prices (based on OPEC's Reference Basket which is a notional blend of crudes from around the world, including Abu Dhabi's Murban crude oil) fell from an annual average of U.S.$96.29 per barrel in 2014 to U.S.$49.49 per barrel in 2015 and U.S.$40.76 per barrel in 2016. Prices then recovered in 2017 and 2018, with the annual average price of the Reference Basket for those years being U.S.$52.43 and U.S.$69.78, respectively.

The sustained period of low crude oil prices from mid-2014 through 2016 affected the UAE in a number of ways:

- nominal GDP was adversely affected in 2015 and 2016 reflecting the significant contributions of the oil and gas sector to the UAE's GDP. In 2015 and 2016, IMF data from its World Economic Outlook Database October 2018 indicates that the UAE's nominal GDP declined by 11.2 per cent. in 2015 and by 0.3 per cent. in 2016. In 2017, the IMF data indicates that the UAE's nominal GDP increased by 7.2 per cent. and the IMF estimates that it will increase by 13.1 per cent. in 2018.

- The UAE's trade surplus (to which hydrocarbon exports make a significant contribution), fell from AED 398 billion in 2014 to AED 281 billion in 2015 and AED 251 billion in 2016, principally as a result of the reduced value of hydrocarbon exports, and then increased to AED 297 billion in 2017 as oil prices recovered, based on Central Bank data.

Abu Dhabi is the principal contributor to the federal budget. Its fiscal balance (which depends almost entirely on revenue from hydrocarbon royalties and taxes and dividends received from Abu Dhabi National Oil Company (ADNOC)), which was a surplus of AED 1.4 billion in 2014, became a deficit of AED 41.5 billion in 2015 and a deficit of AED 25.9 billion in 2016. Abu Dhabi's preliminary budget for 2017 showed a deficit of AED 13.7 billion based on an assumed oil price of U.S.$50 per barrel.

Prospective investors should be aware that the above analysis does not take into account the indirect impact of low oil prices on the economy of the UAE or its constituent emirates, which is difficult to quantify with any precision. Potential investors should note that many of the UAE's other economic sectors are in part dependent on the hydrocarbon sector. For example, reduced government expenditures in light of the budgetary pressures caused by low or falling oil prices also impact the economy. As fiscal spending on infrastructure and investment projects drives credit to public sector entities and private contractors and bank credit for personal lending is driven by public sector wages, if this spending is cut and public sector wages come under pressure, this could, potentially, increase levels of non performing financings held by banks. In addition, large government fiscal deficits, which also typically result in lower government spending, impact many other sectors of the economy, including in particular the construction sector to the extent that large projects are delayed or cancelled. Furthermore, sectors that are dependent on household consumption, including education, healthcare and housing, may be adversely affected by lower levels of economic activity that may result from lower government revenue from hydrocarbon production. Accordingly, if any of the Bank's customers in these sectors experience financial difficulties, the Bank may experience increased numbers of non performing loans ("**NPL**s", being loans which are impaired in line with IFRS), which would lead to lower profitability.

The Bank is exposed to credit risk and has significant concentrations of credit risk

The Bank's largest credit risk exposure is its interbank placements which amounted to AED 3,653 million as at 31 December 2017, equal to 63.1 per cent. of its total assets at the same date. In addition, the Bank's loans and advances and murabaha, ijarah and estisnaa contracts (which are together referred to below as its "**customer financing portfolio**") aggregated AED 662 million as at 31 December 2017 and comprised 11.4 per cent. of its total assets at that date.

Risks arising from adverse changes in the credit quality and recoverability of the Bank's financings are inherent in a wide range of its businesses. In particular, the Bank is exposed to the risk that its customers may not repay amounts advanced to them in accordance with the applicable contractual terms and that any collateral securing the payment of these amounts advanced may be insufficient. The Bank continuously reviews and analyses its interbank placements and its customer financing portfolio (together, its "**financing portfolios**") and credit risks, and the Bank assesses its potential losses on its financing portfolios based on, among other things, its analysis of current and historical delinquency rates and financing management and the valuation of the underlying assets, as well as numerous other management assumptions. However, these internal analyses and assumptions may give rise to inaccurate predictions of credit performance, particularly in a volatile economic climate.

Credit losses could also arise from a deterioration in the credit quality of specific customers, issuers and other counterparties of the Bank, or from a general deterioration in local or global economic conditions, or from systemic risks within financial systems, any or all of which could affect the recoverability and value of the Bank's assets and require an increase in the Bank's provisions for the impairment of assets within its financing portfolios.

The Bank's credit risk is increased by concentrations of risk. Outside its placements with banks, the Bank has significant customer risk concentrations. For example, the Bank's top 10 exposures as at 31 December 2017 amounted to 49.6 per cent. of its total customer financing portfolio.

In addition, as at 31 December 2017, the Bank's real estate loans and advances (being home finance, including Islamic facilities) amounted to AED 425 million, or 49.8 per cent. of its total loans and advances. The ability of its customers, particularly those employed in the private sector in the UAE, to repay these loans will remain strongly linked to economic conditions in the UAE, with increases in unemployment levels and interest rates and declining consumer spending power and house prices being among the main factors that could adversely impact the Bank's real estate exposures. As a result, any deterioration in general economic conditions in the UAE could lead to a deterioration in the credit quality of the Bank's counterparties. See *"—The Bank's business, financial condition, results of operations and prospects are and will continue to be affected by economic conditions and any deterioration in economic conditions in the UAE could materially adversely impact the Bank"* above.

The Bank also has a significant geographic risk concentration. See *"—The Bank's financing portfolios are concentrated in the UAE*" below.

At 31 December 2017, the Bank's specific impairment allowance in respect of its customer financing portfolio amounted to AED 189 million (compared to AED 165 million as at 31 December 2016) and its total impairment allowance (including its collective allowance) in relation to its customer financing portfolio was AED 214 million (compared to AED 183 million as at 31 December 2016). Any failure by the Bank to maintain the quality of the assets in its financing portfolios through effective risk management policies could lead to higher loss provisioning and result in higher levels of defaults and write-offs. In addition, the Central Bank may, at any time, amend or supplement its guidelines and as a result the Bank may make additional provisions in respect of its financing portfolios if it determines that it is appropriate to do so, although the Bank would not be obliged to make any such provisions as the Bank is not subject to the Central Bank's guidelines. If any additional provisions are made, then depending on the exact quantum and timing, such provisions could have an adverse impact on the Bank's financial performance.

A significant decrease in the quality of the Bank's financing portfolios could materially adversely affect its business

The Bank's total NPLs amounted to AED 271 million as at 31 December 2017 compared to AED 281 million as at 31 December 2016 and AED 280 million as at 31 December 2015. The Bank's NPL ratio (defined as the ratio of NPLs to total gross customer financing portfolio) amounted to 31.7 per cent. at 31 December 2017 compared to 49.6 per cent. as at 31 December 2016 and 56.7 per cent. as at 31 December 2015. The Bank's NPL level as at 31 December 2017 was significantly above the average NPL levels applicable to banks operating in the UAE more generally, principally due to its legacy portfolio from Emirates Industrial Bank and Emirates Real Estate Bank, which were merged to create the Bank. Both banks had stopped lending activities for a significant period before the merger and as a result performing loan repayments with no new loans being granted resulted in an increase in the proportion of NPLs in the combined portfolio.

The Bank's non performing financial institution loans as at 31 December 2017 amounted to AED 148 million, which represents two defaults arising as result of the financial crisis in 2009. Both exposures were successfully restructured and 23 per cent. of the original exposure has been recovered.

Any significant future deterioration in the Bank's financing portfolios could result in increased impairments and thus materially adversely affect the Bank's business and profitability.

The Bank is exposed to declining property values in the UAE both in relation to its home finance portfolio and, to a lesser extent, its other portfolios

The Bank's gross customer financing portfolio at 31 December 2017 was AED 854.4 million, of which:

- AED 425 million, or 49.8 per cent., represented home financing; and
- AED 152 million, or 17.8 per cent. of the non-home financing portfolio, represented the outstanding balance of financings secured by real estate or, where lower, the collateral value of the real estate.

Negative economic and other factors could lead to a contraction in the real estate sector and to decreases in residential and commercial property prices. This would be likely to adversely affect the Bank's home financing customers as well as the value of the Bank's collateral and could lead to increased impairment charges which would reduce the Bank's profitability.

The Bank could be adversely affected by the weakness or the perceived weakness of other financial institutions and counterparties, which could result in significant systemic liquidity problems, losses or defaults

Against the backdrop of constraints on liquidity and the high cost of funds in the interbank lending market, and given the high level of interdependence between financial institutions that became most evident following the bankruptcy of Lehman Brothers in 2008, the Bank is subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of other financial institutions. Within the financial services industry, the default of any one institution could lead to significant losses, and potentially defaults, by other institutions. As was experienced in 2008 and 2009, concerns about, or a default by, one institution could also lead to significant liquidity shortages, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions is closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by the Bank or other institutions. This risk, often referred to as "systemic risk", may also adversely affect other financial intermediaries, such as clearing houses, securities firms and exchanges, with whom the Bank interacts on a daily basis. Systemic risk, should it materialise, could have a material adverse effect on the Bank's ability to raise new funding and on its business and prospects.

The Bank is subject to the risk that liquidity may not always be readily available or may only be available at significant cost

Liquidity risk is the risk that the Bank will be unable to meet its obligations, including funding commitments, as they become due. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. For example, credit markets worldwide experienced a severe reduction in liquidity in the final quarter of 2008 and the first half of 2009 during the global financial crisis. Since then, markets have exhibited increased volatility and financial institutions have continued to experience periods of reduced liquidity.

The perception of counterparty risk between financial institutions has also increased significantly since the global financial crisis, which has led to reductions from time to time in certain traditional sources of liquidity, such as the debt markets, asset sales and redemption of investments. The Bank's future access to these traditional sources of liquidity, for example through the issue of securities under the Programme, may be restricted or available only at a higher cost.

In addition, uncertainty or volatility in the capital and credit markets may limit the Bank's ability to refinance maturing liabilities with long-term funding or may increase the cost of such funding. The Bank's access to any additional financing it may need will depend on a variety of factors, including market conditions, the availability of credit generally and to borrowers in the financial services industry specifically, and the Bank's financial condition, credit ratings and credit capacity.

The Bank has historically relied on its cash capital and deposits from UAE Government institutions to meet its funding needs, as the Bank does not accept retail deposits. The availability of institutional deposits as a source of funding may be subject to fluctuation due to factors outside the Bank's control, including significantly worsening economic conditions, and this could result in a significant outflow of these deposits within a short period of time. As at 31 December 2017, all of the Bank's funding had remaining maturities of less than 12 months, based on the remaining period to the contracted maturity date. In addition, the Bank is currently reliant on large deposits from two UAE Government entities: the Sheikh Zayed Housing Programme (the "**SZHP**") and the Mohammed Bin Rashid Innovation Fund (the "**Innovation Fund**").

Although the Bank is party to agreements with both the SZHP and the Innovation Fund, if either of these entities should substantially reduce the funding it provides to the Bank, the Bank may need to seek other sources of funding or may have to sell assets to meet its funding requirements. There can be no assurance that the Bank will be able to obtain additional funding as and when required or at prices that will not affect the Bank's ability to compete effectively. If the Bank is forced to sell assets to meet its funding requirements, it may suffer material losses as a result. In extreme cases, if the Bank is unable to secure sufficient sources of funding to meet its liquidity needs, this would have a material adverse effect on the Bank's business and prospects and could, potentially, result in its insolvency.

A negative change in the Bank's credit ratings could limit its ability to raise funding and may increase its funding costs

The Bank currently has a long-term issuer default rating of AA- with a stable outlook from Fitch Ratings Limited ("**Fitch**"). This rating, which is intended to measure the Bank's ability to meet its debt obligations as they mature, is an important factor in determining its cost of borrowing funds.

A downgrade of the Bank's credit rating, or a change in outlook to negative, may increase the Bank's cost of funding, which could adversely affect its ability to obtain funding and its profitability. A downgrade of the Bank's credit rating (or announcement of a negative ratings outlook) may also limit the Bank's ability to raise capital. Moreover, actual or anticipated changes in the Bank's credit rating may affect the market value of Notes issued under the Programme.

According to Fitch, the Bank's rating is supported by the extremely high probability of support from the UAE authorities if needed. However, investors should note that no UAE authority guarantees the Bank's obligations and no such authority is committed, contractually or otherwise, to support the Bank. In addition, the Bank's ratings are sensitive to a change in Fitch's view of the creditworthiness of the UAE authorities and on their propensity to support the banking system or the Bank. Further, a significant change in the Bank's funding structure or leverage could also impact its rating.

In addition, the credit rating assigned to the Bank may not reflect the potential impact of all risks related to an investment in Notes issued under the Programme, the market or any additional factors discussed in this document, and other factors may affect the value of Notes issued under the Programme. A securities rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation and each rating should be evaluated independently of any other rating.

The Bank's results of operations could be adversely affected by market risks, including volatility in interest rates, prices of securities and foreign exchange rates

The Bank's financial condition and results of operations could be affected by market risks that are outside its control, including, without limitation, volatility in interest rates, foreign exchange rates and prices of securities. Fluctuations in interest rates could adversely affect the Bank's financial condition and results of operations in a number of different ways. In particular, an increase in interest rates generally may decrease the value of the Bank's fixed rate investment securities and may raise the Bank's funding costs. Note 4.3 to the 2017 Financial Statements indicates that the impact of a 25 basis point interest rate change would have been to increase or reduce, as the case may be, its profit and loss by AED 3 million in 2017 and by AED 4 million in 2016.

Interest rates are sensitive to many factors beyond the Bank's control, including the policies of central banks, such as the Central Bank and the U.S. Federal Reserve, political factors and domestic and international economic conditions.

In general, the Bank aims to match its foreign currency assets and liabilities, thereby naturally hedging its exposure. Any open currency position is maintained within limits approved by its board of directors (the "**Board**"). Where the Bank is not hedged, it is exposed to fluctuations in foreign exchange rates and any hedging strategy that it uses may not always be effective. Any volatility in foreign exchange rates, including as a result of the re-fixing of the dirham–dollar exchange rate (or the elimination of that rate altogether), could have a material adverse effect on the Bank's business. There can be no assurance that the UAE Government will not de-peg the dirham in the future or that the existing peg will not be adjusted in a manner that materially adversely affects the Bank's results of operations and financial condition. Any such de-pegging or adjustment, particularly if the dirham weakens against the U.S. dollar, could have a material adverse effect on the Bank's business.

Adverse movements in interest rates and foreign exchange rates may also adversely impact the revenue and financial condition of the Bank's borrowers which, in turn, may impact the quality of the Bank's exposures to certain borrowers.

The Bank's results of operations may also be affected by changes in the market value of the bonds and equity securities held by it. The Bank has a portfolio of quoted and unquoted equity securities which amounted to AED 382 million as at 31 December 2017. Part of this portfolio is held at fair value through other comprehensive income and part is held at fair value through the profit and loss statement. In addition, the Bank has a portfolio of bonds which amounted to AED 188 million as at 31 December 2017 and which is held at fair value through other comprehensive income. The Bank realises gains and losses on the sale of these securities and also records unrealised gains and losses resulting from the fair valuation of the securities at each balance sheet date in its statement of income or statement of comprehensive income, as appropriate. The fair value of the Bank's equity securities depends on numerous factors beyond the Bank's control, such as overall market trading activity, interest rate levels, fluctuations in currency exchange rates and general market volatility. In addition, the fair value of the Bank's bonds changes in response to perceived changes in the credit quality of the issuers of the bonds as well as changes in interest and currency exchange rates. For example, in an increasing interest rate environment, the fair values of the Bank's bonds are likely to decline which could expose the Bank to fair valuation losses or losses on the sale of such securities.

In 2017, the Bank recorded a revaluation gain of AED 1.0 million on its equity securities held at fair value through profit and loss and recorded a revaluation gain on its securities held at fair value through other comprehensive income of AED 1.1 million.

In 2016, the Bank recorded a revaluation gain on its equity securities held at fair value through profit and loss of AED 26 million and a revaluation loss on its securities held at fair value through other comprehensive income of AED 15 million.

In 2015, the Bank recorded a revaluation gain on its equity securities held at fair value through profit and loss of AED 12 million and a revaluation loss on its securities held at fair value through other comprehensive income of AED 44 million.

Should any of the Bank's securities experience a significant and prolonged decline in fair value, this would be likely to result in the Bank making impairments or write-offs in respect of those securities which could adversely affect its profitability.

The Bank's results of operations could be adversely affected by changes in the fair value of its investment properties

The Bank's results of operations may be adversely affected by changes in the fair value of the investment properties held by it. The Bank has a portfolio of investment properties, including investment properties under development, in the emirates of Abu Dhabi, Dubai and Ajman. The Bank's investment properties are held for the purpose of generating rental income. The Bank's investment properties are fair valued by independent appraisers using a valuation model based on Royal Institution of Chartered Surveyors appraisal and valuation standards, with any changes in fair value between reporting dates being recorded in profit and loss.

In each of 2017, 2016 and 2015, the Bank recorded revaluation losses on its investment properties, amounting to AED 19 million, AED 6 million and AED 11 million, respectively. Should any of the Bank's investment properties experience a significant and prolonged decline in fair value, this would be likely to result in the Bank making an impairment in respect of the affected properties which could adversely affect its profitability.

Any failure of the Bank's information technology systems could have a material adverse effect on its business and reputation

The Bank depends on its information technology ("**IT**") systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of the Bank's business and operating data. The proper functioning of the Bank's financial control, risk management, credit analysis and reporting, accounting, customer service and other IT systems, as well as the communication networks between its branches and main data processing centres, are critical to the Bank's business and ability to compete effectively. The Bank's business activities would be materially disrupted if there is a partial or complete failure of any of these IT systems or communications networks.

In common with other financial institutions based in the GCC and elsewhere in the world, the threat to the security of the Bank's information and customer data from cyber-attacks is real and continues to increase. Activists, rogue states and cyber criminals are among those targeting computer systems around the world. Risks to technology and cyber-security change rapidly and require continued focus and investment. Given the increasing sophistication and scope of potential cyber-attack, it is possible that future attacks may lead to significant breaches of security.

In addition, the Bank's IT systems and communications networks can fail for other reasons, many of which are wholly or partially outside the Bank's control including hardware and software failures, natural disasters, extended power outages and computer viruses or other malicious intrusions.

The Bank relies on third party service providers for certain aspects of its business operations. Any interruption or deterioration in the performance of these third parties or failures of their information systems and technology could impair the quality of the Bank's operations and could impact its reputation.

The proper functioning of the Bank's IT systems also depends on accurate and reliable data and other system input, which are subject to human errors. Any failure or delay in recording or processing the Bank's transaction data could subject it to claims for losses and fines and penalties. The Bank has implemented and tested business continuity plans and processes as well as disaster recovery procedures, but there can be no assurance that these safeguards will be fully effective and any failure may have a material adverse effect on the Bank's business and reputation.

The Bank's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks

There can be no assurance that the Bank's risk management and internal control policies and procedures will adequately control, or protect the Bank against, all credit, liquidity, market, operational and other risks. In addition, certain risks may not be accurately quantified by the Bank's risk management systems. Some of the Bank's methods of managing risk are based upon the use of historical market data which, as evidenced by events caused by the global financial crisis, may not always accurately predict future risk exposures, which could be significantly greater than historical measures indicate. In addition, certain risks could be greater than the Bank's empirical data would otherwise suggest.

Stress testing techniques using forward looking scenarios assist the Bank in analysing the impact of risk on the Bank's capital, profitability, liquidity and funding position, which in turn helps to shape the Bank's strategy. These methods assist in predicting possible impacts on the Bank's risk exposures, but actual outcomes may vary and could be significantly greater than historical measures indicate.

Other risk management methods depend upon evaluation of information regarding the markets in which the Bank operates, its clients or other matters that are publicly available or information otherwise accessible to the Bank. This information may not be accurate, complete, up-to-date or properly evaluated in all cases. Any material deficiency in the Bank's risk management or other internal control policies or procedures may expose it to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on the Bank's business and reputation.

The Bank's ability to manage operational risks is dependent upon its internal systems and procedures, which might not be fully effective in all circumstances

Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, systems and equipment failures, natural disasters or the failure of external systems (for example, those of the Bank's counterparties or vendors). The Bank has implemented risk controls and loss mitigation strategies, and substantial resources are devoted to developing efficient procedures and to staff training, but it is not possible to eliminate entirely each of the potential operational risks the Bank faces.

The Bank's ability to manage operational risk, including its ability to comply with all applicable regulations, is largely dependent on its maintenance of compliance, audit and reporting systems and procedures, and its ability to attract and retain personnel qualified to manage and monitor such systems and procedures. Although the Bank performs regular internal audits and employs an external auditor to monitor and test its compliance systems, the Bank cannot be certain that these systems and procedures will be fully effective in all circumstances, particularly in the case of deliberate employee misconduct or other frauds perpetrated against the Bank. In the case of actual or alleged non-compliance with applicable regulations, the Bank could be subject to investigations and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits for damages. Any of these could have a material adverse effect on the Bank's business.

The interests of the Bank's sole shareholder may not be always be the same as those of the holders of Notes issued under the Programme

The Bank is 100 per cent. owned by the UAE Government. The UAE Government's objectives in establishing the Bank were for it to contribute to the sustainable growth of the UAE's economy, including through financing home ownership for UAE nationals and supporting government projects. By virtue of its shareholding, the UAE Government has the ability to influence the Bank's business through its ability to control actions that require shareholder approval and also elects all members of the Bank's Board.

The interests of the UAE Government may be different from those of the Noteholders. For example, decisions made by the UAE Government and the Board may be influenced by the need to consider the UAE Government's objectives in establishing the Bank. Such considerations may result in decisions that are less commercially beneficial to the Bank than those that might otherwise have been made. In addition, although the Bank has not paid any dividends to the UAE Government to date, and does not currently have any plans to pay any dividends to the UAE Government for the foreseeable future, there can be no assurance that dividends will not be paid in future years.

The Bank may not receive future support from the UAE Government

On its establishment in 2011, the Bank received capital from the UAE Government totalling AED 1.7 billion as well as indirect support through deposits by UAE Government institutions. As at 31 December 2017, following additional capital contributions from the Bank's shareholder, the Bank's capital totalled AED 2.2 billion. The UAE Government is not legally obliged to fund any of the Bank's capital requirements or investments and accordingly there can be no assurance that the Bank will receive future capital or support from the UAE Government.

The UAE Government does not explicitly or implicitly guarantee the financial obligations of the Bank (including in respect of any Notes issued under the Programme) nor does it, like any other shareholder, have any legal obligation to provide any support or additional funding for the Bank's future operations.

The Bank is exposed to reputational risks related to its operations and industry

All financial institutions depend on the trust and confidence of their customers to succeed in their business. The Bank is exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not valid, will harm its reputation. The Bank's reputation may also be adversely affected by the conduct of third parties over whom it has no control, including entities to which it advances financing or in which it has invested. In common with other banks, the Bank is also exposed to adverse publicity relating to the financial services industry as a whole. Financial scandals unrelated to the Bank or questionable ethical conduct by other banks may taint the reputation of the industry and affect the perception of investors, public opinion and the attitude of regulators. Any damage to the Bank's reputation could lead potential counterparties to be reluctant to do business with the Bank. Any of these developments could have an adverse effect on the Bank's business.

Although the Bank is not subject to the extensive regulations applicable to the UAE banking industry generally, its policy is to comply with that regulation and any failure to do so in the future could adversely affect its business and reputation

The Bank's policy is to seek to comply with Central Bank regulations designed to maintain the safety and soundness of banks, ensure their compliance with economic and other objectives and limit their exposure to risk. These regulations, to the extent that the Bank voluntarily complies with them, may limit the Bank's ability to carry on certain parts of its business, increase its loan portfolio or raise capital or may impose significant additional costs on the Bank. For example, the Central Bank issued Basel III capital regulations, effective 1 February 2017, introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ("**CET1**"), Tier 1 and Total Capital. The minimum capital ratio requirements include a capital conservation buffer for 2017 of 1.25 per cent. over the minimum CET1 ratio of 7 per cent., increasing to 2.5 per cent. by 2019. The countercyclical capital buffer has not yet been introduced, but may be introduced by the Central Bank within a range of 0 per cent. to 2.5 per cent.

Changes in applicable regulations (including new interpretations of existing regulations) may also, to the extent that the Bank voluntarily chooses to comply with them, increase the Bank's cost of doing business. If the Bank elects not to comply with any material Central Bank regulations, this may negatively affect its business and reputation to the extent that customers and counterparties regard the Bank as a less safe entity to do business with than any of its competitors.

The Bank also complies with know your customer, anti-money laundering and counter-terrorism financing laws and regulations, as well as national and international sanctions regulations and applicable anti-corruption laws in the jurisdictions in which it conducts business. To the extent that the Bank fails or is perceived to fail to comply with these and other applicable laws and regulations, its reputation could be materially damaged, with consequent adverse affects on its business and prospects.

In addition, in order to carry out and expand its businesses, it is necessary for the Bank to maintain or obtain a variety of licences, permits, approvals and consents from various regulatory, legal, administrative, tax and other governmental authorities and agencies. The processes for obtaining these licences, permits, approvals and consents are often lengthy, complex, unpredictable and costly. If the Bank is unable to maintain or obtain the relevant licences, permits, approvals and consents, its ability to achieve its strategic objectives could be impaired.

The Bank may not be able to recruit and retain qualified and experienced personnel, which could have an adverse effect on its business and its ability to implement its strategy

The Bank's success and ability to sustain growth will depend, in part, on its ability to continue to recruit and retain qualified and experienced banking and management personnel. The market for such personnel in the Middle East is competitive and the Bank could face challenges in recruiting and retaining such personnel to manage its businesses. If the Bank is unable to recruit qualified personnel in a timely manner, this could have a material adverse effect on its operations.

The Bank depends on the efforts, skill, reputation and experience of its senior management, as well as synergies among their diverse fields of expertise and knowledge. The loss of key personnel could result in:

- a loss of organisational focus;
- poor execution of operations; and/or
- an inability to identify and execute potential strategic initiatives.

The Bank is also not insured against losses that may be incurred in the event of the loss of any member of its key personnel.

The Bank's accounting policies and methods are critical to how it reports its financial condition and results of operations and require management to make estimates about matters that are uncertain

Accounting policies and methods are fundamental to how the Bank records and reports its financial condition and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies and methods so that they comply with IFRS.

Management has identified certain accounting policies in the notes to the Financial Statements as being critical because they require management's judgment to ascertain the valuations of assets, liabilities, commitments and contingencies. See note 5 to the 2017 Financial Statements. These judgments relate to the determination of impairment allowances.

A variety of factors could affect the ultimate value that is obtained either when earning income, recognising an expense, recovering an asset or reducing a liability. The Bank has established policies and control procedures that are intended to ensure that these critical accounting estimates and judgments are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding the Bank's judgments and the estimates pertaining to these matters, the Bank cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future.

IFRS 9 (Financial Instruments) is effective for annual periods beginning on or after 1 January 2018. The Bank adopted this new standard on the required effective date. IFRS 9 addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than the incurred credit losses basis as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through comprehensive income, contract assets under IFRS 15 (Revenue from Contracts with Customers), lease receivables, loan commitments and certain financial guarantee contracts. The transition to IFRS 9, and principally the new impairment requirements, is currently expected to increase the Bank's equity by an amount in the range of 0.3 per cent. to 0.9 per cent. of its total equity at 1 January 2018. Implementation of IFRS 9 is also expected to increase volatility in provisioning amounts across reporting periods as the new expected loss methodology replaces the previous incurred loss methodology.

The Bank continues to refine the impairment model and related processes. The new standard also introduces expanded disclosure requirements which may change the nature and extent of the Bank's disclosures about its financial instruments in 2018.

RISKS RELATING TO ABU DHABI AND THE UAE

The Bank is subject to economic and political conditions in Abu Dhabi, the UAE and the Middle East

The majority of the Bank's current operations and assets are located in the UAE. The Bank's results of operations are, and will continue to be, generally affected by economic and political developments in or affecting Abu Dhabi, the UAE and the Middle East and, in particular, by the level of economic activity in the UAE. A general downturn or instability in certain sectors of the UAE or the regional economy could have an adverse effect on the Bank, see "*Factors that may affect the Bank's ability to fulfil its obligations under the Transaction Documents—The Bank's business, financial condition, results of operations and prospects are and will continue to be affected by economic conditions and any deterioration in economic conditions in the UAE could materially adversely impact the Bank*".

Moreover, while the UAE Government's policies have generally resulted in improved economic performance, there can be no assurance that such level of performance can be sustained. No assurance can be given that the UAE Government will not implement restrictive fiscal or monetary policies or regulations, including changes with respect to interest rates, profit rates, new legal interpretations of existing regulations or the introduction of taxation or exchange controls which could have a material adverse effect on the Bank's business.

While the UAE is seen as a relatively stable political environment, certain other jurisdictions in the Middle East are not. Instability in the Middle East may result from a number of factors, including government or military regime change, civil unrest or terrorism. In particular, since early 2011 there has been political unrest in a range of countries in the MENA region, including Algeria, Bahrain, Egypt, Iraq, Libya, Morocco, Oman, Saudi Arabia, Syria, Tunisia and Yemen. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict, civil war and the overthrow of existing leadership and has given rise to increased political uncertainty across the region. The MENA region is currently subject to a number of armed conflicts including those in Yemen (in which the UAE armed forces, along with a number of other Arab states, are involved), Syria and Iraq as well as the multinational conflict with Islamic State. In addition, in mid-2017 Bahrain, Saudi Arabia, the UAE and certain other countries imposed sanctions on Qatar which remain in place.

Although the UAE has not experienced significant terrorist attacks such as those experienced by a number of countries in the MENA region, there can be no assurance that extremists or terrorist groups will not escalate violent activities in the UAE. It is not possible to predict the occurrence of events or circumstances, such as war or hostilities, or the impact of such occurrences, and no assurance can be given that the Bank would be able to sustain the operation of its business if adverse political events or circumstances were to occur. Investors should also note that the Bank's business and financial performance could be adversely affected by regional geo-political events that prevent the Bank from delivering its services.

Any of the foregoing circumstances could have a material adverse effect on the political and economic stability of the UAE and, in particular, could impact the numbers of tourists that choose to visit the UAE and the number of businesses interested in doing business in the UAE and, consequently, could have an adverse effect on the Bank's business.

The UAE's economy is dependent upon its oil revenue

The UAE's economy is dependent upon oil revenue through the significant contribution made by Abu Dhabi. The hydrocarbon sector accounted for 50.6 per cent. of Abu Dhabi's nominal GDP in 2014 compared to 35.1 per cent. in 2015, 31.7 per cent. in 2016 and 35.9 per cent. in 2017. In the third quarter of 2018, the hydrocarbon sector accounted for 41.5 per cent. of Abu Dhabi's nominal GDP in that quarter. Abu Dhabi's economy has in the past been adversely affected by periods of low international oil prices, including the sustained period of low world oil prices from mid-2014 until a price recovery started in 2017. See "*Factors that may affect the Bank's ability to fulfil its obligations under the Transaction Documents—The Bank's business, financial condition, results of operations and prospects are and will continue to be affected by economic conditions and any deterioration in economic conditions in the UAE could materially adversely impact the Bank*".

Hydrocarbon prices are expected to continue to fluctuate in the future in response to changes in many factors over which the Bank has no control. Factors that may affect the price of oil include, but are not limited to:

- economic and political developments in oil producing regions, particularly in the Middle East;
- global and regional supply and demand, and expectations regarding future supply and demand, for hydrocarbon products;
- the ability of members of OPEC and other crude oil producing nations to agree upon and maintain specified global production levels and prices;
- the impact of international environmental regulations designed to reduce carbon emissions;
- other actions taken by major crude hydrocarbon producing or consuming countries;
- prices and availability of alternative fuels, global economic and political conditions, prices and availability of new technologies using alternative fuels; and
- global weather and environmental conditions.

Declines in international prices for hydrocarbon products in the future could therefore adversely affect the UAE's economy which, in turn, could have an adverse effect on the Bank's business.

Investing in securities involving emerging markets countries, such as the UAE, generally involves a higher degree of risk than investments in securities of issuers from more developed countries

Investing in securities involving emerging markets countries, such as the UAE, generally involves a higher degree of risk than investments in securities of issuers from more developed countries. In the case of the UAE, these higher risks include those discussed above. In addition, there can be no assurance that the market for securities bearing emerging market risk, such as any Notes issued under the Programme, will not be affected negatively by events elsewhere, especially in emerging markets.

International investors' reactions to events occurring in one emerging market country or region sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by such investors. If such an effect were to occur, the trading price of Notes issued under the Programme could be adversely affected by negative economic or financial developments in other emerging market countries over which the UAE Government has no control.

In addition, the economies of emerging markets are more susceptible to influence by macroeconomic policy decisions of developed countries than other more developed markets. In particular, emerging market economies have in the past demonstrated sensitivity to periods of economic growth and interest rate movements of developed economies. No assurance can be given that this will not be the case in the future. As a consequence, an investment in Notes issued under the Programme carries risks that are not typically associated with investing in securities issued by issuers in more mature markets. These risks may be compounded by any incomplete, unreliable or unavailable economic and statistical data on the UAE, including elements of information provided in this Base Prospectus. Prospective investors should also note that emerging economies, such as the UAE's, are subject to rapid change and that the information set out in this Base Prospectus may become out-dated relatively quickly. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Prospective investors are urged to consult with their own legal and financial advisers before making an investment decision.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Change of law

The conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus nor whether any such change could adversely affect the ability of the Bank to make payments under the Notes.

Notes where denominations involve integral multiples: Definitive Notes

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination.

In such a case a holder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination would need to purchase an additional principal amount of Notes such that it holds an amount equal to at least the minimum Specified Denomination to be able to trade such Notes. Noteholders should be aware that Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

If a Noteholder holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time, such Noteholder may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to at least a Specified Denomination in order to be eligible to receive a Definitive Note.

If Definitive Notes are issued, holders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Investors may experience difficulty in enforcing arbitration awards and foreign judgments in the UAE

The payments under the Notes are dependent upon the Bank making payments to investors in the manner contemplated under the Notes. If the Bank fails to do so, it may be necessary for an investor to bring an action against the Bank to enforce its obligations and/or to claim damages, as appropriate, which may be costly and time-consuming.

Under current UAE law, the UAE courts are unlikely to enforce an English court judgment without re-examining the merits of the claim and may not observe the parties' choice of English law as the governing law of the transaction. In the UAE, foreign law is required to be established as a question of fact and the interpretation of English law by a court in the UAE may not accord with the interpretation of an English court. In principle, courts in the UAE recognise the choice of foreign law if they are satisfied that an appropriate connection exists between the relevant transaction agreement and the foreign law which has been chosen. They will not, however, honour any provision of foreign law which is contrary to public policy, order or morals in the UAE, or to any mandatory law of, or applicable in, the UAE.

The UAE is a civil law jurisdiction and judicial precedents in the UAE have no binding effect on subsequent decisions. In addition, court decisions in the UAE are generally not recorded. These factors create greater judicial uncertainty than would be expected in other jurisdictions.

The Bank has agreed that the Transaction Documents are governed by English law and that any dispute arising from such Transaction Documents will, unless the option to litigate is exercised, be referred to arbitration under the arbitration rules of the London Court of International Arbitration ("**LCIA**") (the "**Arbitration Rules**") with an arbitral tribunal with its seat in London, England. Under the Conditions, any disputes arising from the Conditions or any non-contractual obligations arising out of or in connection with them may be referred to arbitration in London, England, under the Arbitration Rules. Under the Conditions and the Transaction Documents, any dispute may also be referred to the courts of England (or such other court of competent jurisdiction which the Noteholder may elect). Notwithstanding that a judgment may be obtained in an English court, there is no assurance that the Bank has, or would at the relevant time have, assets in the United Kingdom against which such arbitral award or judgment could be enforced.

The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "**New York Convention**") entered into force in the UAE on 19 November 2006. In the absence of any other multilateral or bilateral enforcement convention, an arbitration award rendered in London should be enforceable in the UAE in accordance with the terms of the New York Convention. Under the New York Convention, the UAE has an obligation to recognise and enforce foreign arbitration awards, unless the party opposing enforcement can prove one of the grounds under Article V of the New York Convention to refuse enforcement, or the UAE courts find that the subject matter of the dispute is not capable of settlement by arbitration or enforcement would be contrary to the public policy of the UAE.

How the New York Convention provisions would be interpreted and applied by the UAE courts in practice and whether the UAE courts will enforce a foreign arbitration award in accordance with the New York Convention (or any other multilateral or bilateral enforcement convention), remains largely untested. This is reinforced by the lack of a system of binding judicial precedent in the UAE and the independent existence of different Emirates within the UAE, some with their own court systems, whose rulings may have no more than persuasive force cross border. Although there are examples of foreign arbitral awards being enforced in the UAE under the New York Convention, there are other cases where the enforcement of foreign arbitral awards have been refused, with, for example, the relevant judge ignoring the provisions of Article 238 of Federal Law No. 11 of 1992 (as amended by Federal Law No. 30 of 2005) (the "**Law of Civil Procedure**"). Article 238 provides that Articles 235 to 237 (which deal with enforcement of foreign judgments, orders and instruments and which contain onerous requirements which must be satisfied before enforcement will be considered by the UAE courts) apply only in the absence of multilateral or bilateral conventions such as the New York Convention. In particular, there remains a risk that notwithstanding Article 238 of the Law of Civil Procedure or the terms of an applicable multilateral or bilateral enforcement convention, the UAE courts may in practice still consider and apply Articles 52 to 57 of Federal Law No. 6 of 2018 (the "**UAE Arbitration Law**") related to the enforcement of arbitral awards, or provisions of the Law of Civil Procedure related to the enforcement of foreign judgments, to the enforcement of any non-UAE arbitral award. The UAE Arbitration Law is a new law and it is unclear how it will be applied by the UAE courts in practice. Accordingly, there is a risk that a non-UAE arbitral award will be refused enforcement by the UAE courts.

The Bank's waiver of immunity may not be effective under the laws of the UAE

Article 247 of Federal Law No.11 of 1992 regarding the Law of Civil Procedure (as amended) provides that public or private assets owned by the UAE or any of the Emirates may not be confiscated. There is a risk that the assets of the Bank may fall within the ambit of government assets and as such cannot be attached or executed upon.

Although the Bank has irrevocably waived its right in relation to immunity, there can be no assurance as to whether such waivers of immunity from execution or attachment or other legal process by it under the Agency Agreement, the Dealer Agreement and the Notes are valid and binding under the laws of the UAE.

Reliance on Euroclear and Clearstream, Luxembourg procedures

The Notes of each Tranche will be represented on issue by a Global Note that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Note, investors will not be entitled to receive Notes in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the ownership interests in the Global Note. While the Notes of any Tranche are represented by the Global Note, investors will be able to trade their ownership interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Notes of any Tranche are represented by the Global Note, the Bank will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of an ownership interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, ownership interests in a Global Note.

Holders of ownership interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Conflicts of interest – Calculation Agent

Potential conflicts of interest may exist between the Calculation Agent (if any) and Noteholders (including where a Dealer acts as a calculation agent), including with respect to certain determinations and judgements that such Calculation Agent may make pursuant to the Conditions that may influence amounts receivable by the Noteholders during the term of the Notes and upon their redemption.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes issued under the Programme will (unless they are to be consolidated into a single series with any Notes previously issued) be new securities which may not be widely distributed and for which there is currently no active trading market. Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for the Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of the Notes.

In addition, Noteholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date of this Base Prospectus), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Notes. Such lack of liquidity may result in investors suffering losses on the Notes in secondary resales even if there is no decline in the performance of the assets of the Bank. The Bank cannot predict if any of these circumstances will change and whether, if and when they do change, there will be a more liquid market for the Notes and instruments similar to the Notes at that time.

Exchange rate risks and exchange controls

The Bank will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency.

These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls.

An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (1) the Investor's Currency equivalent yield on the Notes; (2) the Investor's Currency equivalent value of the principal payable on the Notes; and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Fixed Rate Notes

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Risks relating to Notes which are linked to "benchmarks"

Interest rates and indices which are deemed to be "benchmarks" (including EURIBOR, LIBID, LIBOR, LIMEAN, SHIBOR, HIBOR, SIBOR, EIBOR, SAIBOR, BBSW, AUD LIBOR, JPY LIBOR, PRIBOR, CNH HIBOR, TRLIBOR or TRYLIBOR, TIBOR, GBP LIBOR, CHF LIBOR, CAD LIBOR, NZD LIBOR, DKK LIBOR, SEK LIBOR, MIBOR or BKBM) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such a "benchmark".

The Benchmarks Regulation was published in the Official Journal of the EU on 29 June 2016 and applies from 1 January 2018 (with the exception of provisions specified in Article 59 (mainly on critical benchmarks) that have applied since 30 June 2016). The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It will, among other things, (i) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed); and (ii) prevent certain uses by EU supervised entities of "benchmarks" of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Notes linked to or referencing a "benchmark", in particular, if the methodology or other terms of the "benchmark" are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the "benchmark".

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the following effects on certain "benchmarks": (i) discourage market participants from continuing to administer or contribute to such "benchmark"; (ii) trigger changes in the rules or methodologies used in the "benchmarks" or (iii) lead to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international, national or other proposals for reform or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing a "benchmark".

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms, investigations and licensing issues in making any investment decision with respect to any Notes linked to or referencing a "benchmark".

Future discontinuance of LIBOR may adversely affect the value of Floating Rate Notes which reference LIBOR

On 27 July 2017, the Chief Executive of the UK Financial Conduct Authority, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. In a further speech on 12 July 2018, the Financial Conduct Authority emphasised that market participants should not rely on the continued publication of LIBOR after the end of 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forward. This may cause LIBOR to perform differently than it has in the past and may have other consequences which cannot be predicted.

Investors should be aware that, if LIBOR (or any other benchmark) were discontinued or otherwise unavailable, the rate of interest on Floating Rate Notes which reference LIBOR (or such other benchmark) will be determined for the relevant period by the fall-back provisions applicable to such Notes set out in the Conditions. Depending on the manner in which the rate of interest is to be determined under the Conditions, this may: (i) if ISDA Determination applies, be reliant upon the provision by reference banks of offered quotations which, depending on market circumstances, may not be available at the relevant time; or (ii) if Screen Rate Determination applies, result in the effective application of a fixed rate based on the rate which applied in the previous period when the relevant benchmark was available. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, any Floating Rate Notes which reference a benchmark.

If a Benchmark Event (as defined in the Conditions) occurs, there is a possibility that the rate of interest could alternatively be set by an Independent Adviser or the Bank (without a requirement for the consent or approval of Noteholders) by reference to a successor rate or an alternative reference rate and that such successor rate or alternative reference rate may be adjusted (if required) in order to reduce or eliminate, to the fullest extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark. The consent of the Noteholders shall not be required in connection with effecting a successor rate or an alternative reference rate (as applicable) or such other changes, including for the execution of any documents or other steps by the Paying Agent. The Bank shall promptly, following the determination of any successor rate, give notice thereof to the Paying Agent and the Noteholders, which shall specify the effective date(s) for such successor rate or alternative rate and any consequential changes made to the Conditions.

The above-mentioned risks related to benchmarks may also impact a wider range of benchmarks in the future. Investors in Floating Rate Notes which reference such other benchmarks should be mindful of the applicable interest rate fall-back provisions applicable to such Notes and the adverse effect this may have on the value or liquidity of, and return on, any Floating Rate Notes which reference any such benchmark.

The Subordinated Notes are expressed to rank junior to unsubordinated creditors of the Bank

The Subordinated Notes shall constitute subordinated obligations of the Bank, as more particularly described in Condition 5 (*Status*). Accordingly, in the event of a winding-up or administration of the Bank, or an analogous process under the laws of the UAE or any Emirate therein, the rights and claims of the Noteholders will be subordinated to, respectively, Senior Creditors of the Bank (as defined in Condition 5(b) (*Status of the Subordinated Notes*)) and the relevant liquidator, applying the contractual terms, would first apply assets of the Bank to satisfy claims of all Senior Creditors of the Bank.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the relevant rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency being included in such list as there may be delays between certain supervisory measures being taken against a relevant rating agency and publication of an updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

FINAL TERMS

In this section, the expression "**necessary information**" means, in relation to any Tranche of Notes, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Bank, the rights attaching to the Notes and the Bank's ability to make payments due under the Notes.

In relation to the different types of Notes which may be issued under the Programme, the Bank has endeavoured to include in this Base Prospectus all of the necessary information except for information relating to the Notes which is not known at the date of this Base Prospectus and which can only be determined at the time of an individual issue of a Tranche of Notes.

Any information relating to the Notes which is not included in this Base Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Notes will be contained in the applicable Final Terms unless, in accordance with Rule 2.9 of the Market Rules, any such information constitutes a significant new matter or a significant change in, or a material mistake or inaccuracy affecting, any matter contained in this Base Prospectus which, in each case, is capable of affecting the assessment of any Notes which may be issued under the Programme, in which case such information, together with all of the other necessary information in relation to the relevant Series of Notes, may be contained in a supplementary prospectus to this Base Prospectus, or in a new Base Prospectus for use in connection with any subsequent issue of Notes.

For a Tranche of Notes which is the subject of Final Terms, the Final Terms will, for the purposes of that Tranche only, supplement this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes which is the subject of Final Terms will be the Conditions as supplemented by and to the extent described in the applicable Final Terms.

FORMS OF THE NOTES

Words and expressions defined in "Terms and Conditions of the Notes" herein shall have the same meanings in this section.

Bearer Notes

Each Tranche of Bearer Notes will initially be in the form of either a temporary global note in bearer form (the "**Temporary Global Note**") without interest coupons, or a permanent global note in bearer form (the "**Permanent Global Note**") without interest coupons, in each case as specified in the applicable Final Terms. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

So long as the Notes are represented by a Temporary Global Note or Permanent Global Note and the relevant clearing system(s) so permit, the Notes may, if so specified in the applicable Final Terms, be tradeable only in a minimum authorised denomination of U.S.$100,000 and higher multiples of U.S.$1,000. In such a case, no Definitive Notes will be issued with a denomination above U.S.$199,000.

The applicable Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (or substantially identical successor United States Treasury Regulation section, including, without limitation, substantially identical successor regulations issued in accordance with Internal Revenue Service Notice 2012-20 or otherwise in connection with the United States Hiring Incentives to Restore Employment Act of 2010) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (or any substantially identical successor United States Treasury Regulation section, including, without limitation, substantially identical successor regulations issued in accordance with Internal Revenue Service Notice 2012-20 or otherwise in connection with the United States Hiring Incentives to Restore Employment Act of 2010) (the "**TEFRA D Rules**") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the applicable Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless, upon due certification, exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Bank shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(a) presentation and (in the case of final exchange) surrender of the Temporary Global Note to or to the order of the Fiscal Agent; and

(b) receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership,

(c) within seven days of the bearer requesting such exchange.

The principal amount of the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership **provided that** in no circumstances shall the principal amount of the Permanent Global Note exceed the initial principal amount of the Temporary Global Note.

Temporary Global Note exchangeable for Definitive Notes

If the applicable Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules nor the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable in whole, but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the applicable Final Terms specifies the form of Note as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Bank shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the applicable Final Terms) in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Fiscal Agent within 45 days of the bearer requesting such exchange.

If:

(a) a Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of a Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

(b) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Temporary Global Note has requested exchange of the Temporary Global Note for Definitive Notes; or

(c) a Temporary Global Note (or any part thereof) has become due and payable in accordance with the Conditions or the date for final redemption of a Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note or increase the principal amount thereof or deliver Definitive Notes, as the case may be) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (London time) on such thirtieth day (in the case of (b) above) or at 5.00 p.m. (London time) on such due date (in the case of (c) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under a deed of covenant dated 18 February 2019 (the "**Deed of Covenant**") executed by the Bank). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note will acquire directly against the Bank all those rights to which they would have been entitled if, immediately before the Temporary Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Permanent Global Note exchangeable for Definitive Notes

If the applicable Final Terms specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes.

The Permanent Global Note will be exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**"):

(a) on the expiry of such period of notice as may be specified in the applicable Final Terms; or

(b) at any time, if so specified in the applicable Final Terms; or

(c) if: (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business and no successor clearing system is available; or (b) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

The exchange upon notice option described in paragraphs (i) and (ii) above should not be expressed to be applicable under Form of Notes in the applicable Final Terms if the relevant Notes have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount. Furthermore, Notes should not be issued which have such denominations if such Notes are to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Bank shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the applicable Final Terms) in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 45 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Permanent Global Note has duly requested exchange of the Permanent Global Note for Definitive Notes; or

(b) a Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Permanent Global Note in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Permanent Global Note will acquire directly against the Bank all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Registered Notes

Subject as provided below in relation to Global Registered Notes, in respect of each Tranche of Notes issued in registered form, the Bank will deliver to each holder of such Notes an individual Registered Note and the name of the holder will be recorded in the register which the Bank shall procure to be kept by the Registrar. Registered Notes will be in substantially the forms (subject to amendment and completion) scheduled to a programme manual containing the forms of the Notes in global and definitive form and dated 18 February 2019 (the "**Programme Manual**"). Notes issued in registered form will not be represented upon issue by a Temporary Global Note and Registered Notes will not be exchangeable for Bearer Notes.

Registered Notes held in Euroclear and/or Clearstream, Luxembourg (or any other clearing system) will be represented by a global Registered Note (a "**Global Registered Note**") which will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg (or such other relevant clearing system).

The Global Registered Note will become exchangeable in whole, but not in part, for individual Registered Notes (each an "**Individual Registered Note**"):

(a) on the expiry of such period of notice as may be specified in the applicable Final Terms; or

(b) at any time, if so specified in the applicable Final Terms as being at the option of such holder of a Global Registered Note upon such holder's request; or

(c) if: (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of public holidays) or announces an intention permanently to cease business, and no successor clearing system is available; or (b) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

The exchange upon notice option described in paragraphs (i) and (ii) above should not be expressed to be applicable under Form of Notes in the applicable Final Terms if the relevant Notes have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount. Furthermore, Notes should not be issued which have such denominations if such Notes are to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.

Whenever the Global Registered Note is to be exchanged for Individual Registered Notes, such Individual Registered Notes will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Note within five business days of the delivery, by or on behalf of the registered holder of the Global Registered Note, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Registered Notes (including, without limitation, the names and addresses of the persons in whose names the Individual Registered Notes are to be registered and the principal amount of each such person's holding) against the surrender of the Global Registered Note at the specified office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) Individual Registered Notes have not been issued and delivered by 5.00 p.m. (London time) on the thirtieth day after the date on which the same are due to be issued and delivered in accordance with the terms of the Global Registered Note; or

(b) any of the Notes evidenced by the Global Registered Note has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Registered Note on the due date for payment in accordance with the terms of the Global Registered Note,

then the Global Registered Note (including the obligation to deliver Individual Registered Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such date (in the case of (b) above) and the holder will have no further rights thereunder (but without prejudice to the rights which the holder or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg (or any other relevant clearing system) as being entitled to interests in the Notes will acquire directly against the Bank all those rights to which they would have been entitled if, immediately before the Global Registered Note became void, they had been the registered holders of Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear, Clearstream, Luxembourg or any other relevant clearing system (as the case may be).

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the applicable Final Terms which complete those terms and conditions.

Summary of provisions relating to the Notes in Global Form

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent below:

Payments: All payments in respect of the Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Bank in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Bank shall procure that the payment is noted in a schedule thereto.

Payment Business Day: In the case of a Global Note, this shall be, if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre, or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: Each payment in respect of the Global Registered Note will be made to the person shown as the holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Registered Note is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 10(e) (*Redemption and Purchase – Redemption at the option of Noteholders*), the bearer of the Permanent Global Note or the holder of a Global Registered Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Fiscal Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 10(c) (*Redemption and Purchase – Redemption at the option of the Bank*) in relation to only some of the Notes, the Permanent Global Note or Global Registered Note may be redeemed in part in the principal amount specified by the Bank in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 20 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Registered Note and the relevant Note or Notes is/are deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 20 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Clearing System Accountholders

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Bank to the bearer of such Global Note and in relation to all other rights arising under the Global Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by the Global Note, Accountholders shall have no claim directly against the Bank in respect of payments due under the Notes and such obligations of the Bank will be discharged by payment to the bearer of the Global Note.

Legend concerning U.S. persons

Any Notes (other than Temporary Global Notes) and any Coupons and Talons appertaining thereto where TEFRA D is specified in the applicable Final Terms will bear a legend to the following effect:

"*Any United States person (as defined in Regulation S under the U.S. Securities Act of 1933, as amended) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the U.S. Internal Revenue Code of 1986, as amended*."

The sections referred to in such legend provide that a U.S. person who holds a Note, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as completed by the applicable Final Terms will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of provisions relating to the Notes in Global Form" above.

1. **Introduction**

(a) ***Programme***: Emirates Development Bank P.J.S.C. (the "**Bank**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to U.S.$3,000,000,000 in aggregate principal amount of notes (the "**Notes**").

(b) ***Final Terms***: Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of a final terms (the "**Final Terms**") which completes these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as completed by the applicable Final Terms. In the event of any inconsistency between these Conditions and the applicable Final Terms, the applicable Final Terms shall prevail.

(c) ***Agency Agreement***: The Notes are the subject of an agency agreement dated 18 February 2019 as amended or supplemented from time to time (the "**Agency Agreement**") between the Bank, Citibank N.A., London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), Citigroup Global Markets Europe AG as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). References herein to the "**Agents**" are to the Fiscal Agent, the Calculation Agent and the Paying Agents and any reference to an "**Agent**" is to each one of them.

(d) ***The Notes***: All subsequent references in these Conditions to "**Notes**" are to the Notes which are the subject of the applicable Final Terms. Copies of the applicable Final Terms are available for inspection during normal business hours at the specified office of the Fiscal Agent, the initial specified office of which is set out in the Agency Agreement.

(e) ***Summaries***: Certain provisions of these Conditions are summaries of the Agency Agreement and are subject to its detailed provisions. The holders of the Notes (the "**Noteholders**", which expression shall where appropriate, be deemed to include holders of Notes issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"), the holders of related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**" respectively) and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable in instalments) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices of the Paying Agent, or, if applicable, the Registrar, the initial Specified Offices of which are set out in the Agency Agreement.

2. **Interpretation**

(a) ***Definitions:*** In these Conditions, the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the applicable Final Terms;

"**Additional Business Centre(s)**" means the city or cities specified as such in the applicable Final Terms;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the applicable Final Terms;

"**Business Day**" means:

(i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and

(ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre.

"**Business Day Convention**", in relation to any particular date, has the meaning given in the applicable Final Terms and, if so specified in the applicable Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(ii) "**Modified Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(iii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(iv) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the applicable Final Terms as the Specified Period after the calendar month in which the preceding such date occurred **provided that**:

(A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(D) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means the Fiscal Agent or such other Person specified in the applicable Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the applicable Final Terms;

"**Calculation Amount**" has the meaning given in the applicable Final Terms;

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to the Note;

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the applicable Final Terms and:

(i) if "**Actual/Actual (ICMA)**" is so specified, means:

(A) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) where the Calculation Period is longer than one Regular Period, the sum of:

(1) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (I) the actual number of days in such Regular Period and (II) the number of Regular Periods in any year; and

(2) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (I) the actual number of days in such Regular Period and (II) the number of Regular Periods in any year;

(ii) if "**Actual/365**" or "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30; and

(vi) if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30;

"**Early Redemption Amount (Tax)**" means, in respect of any Note, its principal amount or such other amount as may be specified in the applicable Final Terms;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the applicable Final Terms;

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the applicable Final Terms;

"**Fixed Coupon Amount**" has the meaning given in the applicable Final Terms;

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(i) any obligation to purchase such Indebtedness;

(ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(iv) any other agreement to be responsible for such Indebtedness;

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the interest commencement date in the applicable Final Terms;

"**Interest Determination Date**" has the meaning given in the applicable Final Terms;

"**Interest Payment Date**" means the date or dates specified as such in, or determined in accordance with the provisions of, the applicable Final Terms and, if a Business Day Convention is specified in the applicable Final Terms:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the applicable Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"**ISDA Definitions**" means the 2006 ISDA Definitions or such other ISDA Definitions as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the applicable Final Terms) as published by the International Swaps and Derivatives Association, Inc.;

"**Issue Date**" has the meaning given in the applicable Final Terms;

"**Margin**" has the meaning given in the applicable Final Terms;

"**Maturity Date**" has the meaning given in the applicable Final Terms;

"**Maximum Redemption Amount**" has the meaning given in the applicable Final Terms;

"**Minimum Redemption Amount**" has the meaning given in the applicable Final Terms;

"**Optional Redemption Amount (Call)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the applicable Final Terms;

"**Optional Redemption Amount (Put)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the applicable Final Terms;

"**Optional Redemption Date (Call)**" has the meaning given in the applicable Final Terms;

"**Optional Redemption Date (Put)**" has the meaning given in the applicable Final Terms;

"**Payment Business Day**" means:

(i) if the currency of payment is euro, any day which is:

(A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(B) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(ii) if the currency of payment is not euro, any day which is:

(A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**Permitted Reorganisation**" means:

(i) any solvent winding up or dissolution of a Subsidiary where the remaining assets of such Subsidiary are distributed to the Bank or any wholly-owned Subsidiary of the Bank;

(ii) any disposal by any Subsidiary (including, but not limited to, on its solvent winding up) of the whole or a substantial part of its business, undertaking or assets to the Bank or any wholly-owned Subsidiary of the Bank;

(iii) any amalgamation, consolidation or merger of a Subsidiary with any other Subsidiary or any other wholly-owned Subsidiary of the Bank; or

(iv) any amalgamation, consolidation, restructuring, merger or reorganisation on terms previously approved by a modification made by Extraordinary Resolution of the Noteholders pursuant to Condition 18 (*Meetings of Noteholders; Modification and Waiver*);

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency **provided that**:

(i) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

(ii) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland; in each case as is selected by the Bank;

"**Put Option Notice**" means a notice, in the form available from the Specified Office of the Paying Agent, or in the case of Registered Notes, the Registrar which must be delivered to the Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Put Option Receipt**" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the applicable Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the applicable Final Terms;

"**Record Date**" has the meaning given to such term in Condition 12 (*Payments – Registered Notes*);

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the applicable Final Terms;

"**Reference Banks**" means the four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

"**Reference Price**" has the meaning given in the applicable Final Terms;

"**Regular Period**" means:

(i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and

(iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

"**Relevant Banking Day**" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments generally in the place of presentation of the relevant Note or, as the case may be, Coupon or, in connection with the transfer of Registered Notes only, the place of the Specified Office of the Registrar;

"**Relevant Currency**" has the meaning given in the applicable Final Terms;

"**Relevant Date**" means, in relation to any payment, whichever is the later of: (i) the date on which the payment in question first becomes due; and (ii) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders in accordance with Condition 20 (*Notices*);

"**Relevant Financial Centre**" has the meaning given in the applicable Final Terms;

"**Relevant Indebtedness**" means any Indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other similar instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the applicable Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the applicable Final Terms;

"**Reserved Matter**" means: (i) any proposal to change any date fixed for payment of principal or interest in respect of the Notes; (ii) to reduce the amount of principal or interest payable on any date in respect of the Notes; (iii) to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment (other than, in the case of this limb (iii) only, any change arising from the discontinuation of any interest rate benchmark used to determine the amount of any payment in respect of the Notes); (iv) to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"**Specified Currency**" has the meaning given in the applicable Final Terms;

"**Specified Denomination(s)**" has the meaning given in the applicable Final Terms;

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the applicable Final Terms;

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

"**Talon**" means a talon for further Coupons;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro; and

"**Zero Coupon Note**" means a Note specified as such in the applicable Final Terms.

(b) ***Interpretation***: In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the applicable Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the applicable Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 13 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 13 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "**outstanding**" shall be construed in accordance with the Agency Agreement;

(vii) if an expression is stated in Condition 2(a) (*Interpretation – Definitions*) to have the meaning given in the applicable Final Terms, but the applicable Final Terms gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes; and

(viii) any reference to the Agency Agreement and/or the Deed of Covenant shall be construed as a reference to the Agency Agreement and/or the Deed of Covenant, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Notes.

3. Form, Denomination and Title

(a) ***Notes in Bearer Form***: Bearer Notes are issued in the Specified Denomination(s) with Coupons and, if specified in the applicable Final Terms, Talons attached at the time of issue and may be held in holdings equal to the minimum denomination specified in the applicable Final Terms and integral multiples in excess thereof. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination. Title to Bearer Notes and Coupons will pass by delivery. The holder of any Bearer Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such holder. All Definitive Notes will be serially numbered, with coupons, if any, attached.

(b) ***Notes in Registered Form***: Registered Notes are issued in the Specified Denomination and may be held in holdings equal to the minimum denomination specified in the applicable Final Terms and integral multiples in excess thereof. The holder of each Registered Note shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Registered Note relating thereto (other than the endorsed form of transfer) or any previous loss or theft of such Registered Note) and no Person shall be liable for so treating such holder. Title to Registered Notes will pass by transfer and registration in the register which the Bank shall procure to be kept by the Registrar. All individual Registered Notes will be numbered serially with an identity number which will be recorded in the register.

The Notes are either senior notes or subordinated notes, as indicated in the applicable Final Terms ("**Senior Notes**" and "**Subordinated Notes**", respectively).

4. Transfers of Registered Notes

(a) ***Transfers of Registered Notes***: A Registered Note may, upon the terms and subject to the conditions set forth in the Agency Agreement, be transferred in whole or in part only (**provided that** such part is, or is an integral multiple of, the minimum denomination specified in the Final Terms) upon the surrender of the Registered Note to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the Specified Office of the Registrar. A new Registered Note will be issued to the transferee and, in the case of a transfer of part only of a Registered Note, a new Registered Note in respect of the balance not transferred will be issued to the transferor.

(b) ***Issue of new Registered Notes***: Each new Registered Note to be issued upon the transfer of a Registered Note will, within five Relevant Banking Days of the day on which such Note was presented for transfer, be available for collection by each relevant holder at the Specified Office of the Registrar or, at the option of the holder requesting such transfer, be mailed (by uninsured post at the risk of the holder(s) entitled thereto) to such address(es) as may be specified by such holder. For these purposes, a form of transfer received by the Registrar or the Fiscal Agent after the Record Date in respect of any payment due in respect of Registered Notes shall be deemed not to be effectively received by the Registrar or the Fiscal Agent until the day following the due date for such payment.

(c) ***Charges for transfer or exchange***: The issue of new Registered Notes on transfer will be effected without charge by or on behalf of the Bank, the Fiscal Agent or the Registrar, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Bank, the Fiscal Agent or the Registrar may require in respect of) any tax, duty or other governmental charges which may be imposed in relation thereto.

(d) ***Closed Periods***: Holders of Registered Notes may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.

5. **Status**

(a) ***Status of the Senior Notes***: The Senior Notes and any related coupons constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 6 (*Negative Pledge*)) unsecured obligations of the Bank which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Bank, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(b) ***Status of the Subordinated Notes***: The Subordinated Notes and any related Coupons constitute direct, conditional (as described below) and unsecured obligations of the Bank and rank *pari passu* among themselves.

The payment obligations of the Bank in respect of the Subordinated Notes (whether on account of principal, interest or otherwise) will be subordinated to all unsubordinated payment obligations of the Bank in the manner described below but will rank *pari passu* with all other subordinated payment obligations of the Bank which do not rank or are not expressed by their terms to rank junior to the payment obligations under the Subordinated Notes and in priority to all claims of shareholders of the Bank. The rights of the holders of Subordinated Notes against the Bank are subordinated in right of payment to the claims of all Senior Creditors of the Bank and, accordingly, payments in respect of the Subordinated Notes (whether on account of principal, interest or otherwise) by the Bank are conditional upon the Bank being solvent at the time of such payment and no payment shall be payable by the Bank in respect of the Subordinated Notes, except to the extent that the Bank could make such payment and any other payment required to be made to a creditor in respect of indebtedness which ranks or is expressed to rank *pari passu* with the Subordinated Notes and still be solvent immediately thereafter. For this purpose, the Bank shall be solvent if: (i) it is able to pay its debts as they fall due; and (ii) its assets exceed its liabilities, and "**Senior Creditors**" shall mean creditors of the Bank (including depositors) other than creditors in respect of indebtedness where, by the terms of such indebtedness, the claims of the holders of that indebtedness rank or are expressed to rank *pari passu* with, or junior to, the claims of the Noteholders.

Each holder of a Subordinated Note unconditionally and irrevocably waives any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Note. No collateral is or will be given for the payment obligations under the Subordinated Notes and any collateral that may have been or may in the future be given in connection with other indebtedness of the Bank shall not secure the payment obligations of the Bank in respect of the Subordinated Notes.

6. **Negative Pledge**

This Condition 6 (*Negative Pledge*) only applies to Senior Notes.

So long as any Note remains outstanding, the Bank shall not, and shall procure that none of its Material Subsidiaries will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness of the Bank or Guarantee (by the Bank) of Relevant Indebtedness of others, other than a Permitted Security Interest, without: (a) at the same time or prior thereto securing the Notes equally and rateably therewith; or (b) providing such other security for the Notes as may be approved by an Extraordinary Resolution of Noteholders.

In this Condition:

"**Indebtedness**" means any present or future indebtedness of any person for or in respect of any money borrowed or raised including (without limitation) any liability arising under bonds, sukuk or other securities or any moneys raised under any transaction having the commercial effect of borrowing or raising money including any *Shari'a*-compliant alternative of the foregoing;

"**Material Subsidiary**" means any Subsidiary of the Bank: (i) whose assets from time to time represent not less than 10 per cent. of the consolidated assets of the Bank, or whose revenues from time to time represent not less than 10 per cent. of the consolidated revenues of the Bank, as shown in the Bank's most recent audited consolidated annual financial statements (or, if more recent, consolidated interim financial statements); or (ii) to which is transferred all or substantially all of the assets and undertakings of a Subsidiary which immediately prior to such transfer is a Material Subsidiary;

"**Non recourse Project Financing**" means any Indebtedness incurred in connection with the financing of all or part of the costs of the acquisition, construction or development of any project, **provided that**: (i) any Security Interest given by the Bank or the relevant Subsidiary is limited solely to assets of the project; (ii) the Person or Persons providing such financing expressly agrees to limit their recourse to the project financed and the revenues derived from such project as the principal source of repayment for the moneys advanced; and (iii) there is no other recourse to the Bank or the relevant Subsidiary in respect of any default by any Person under the financing; and

"**Permitted Security Interest**" means, for the purposes of this Condition 6 (*Negative Pledge*):

(i) any Security Interest created or outstanding with the approval of an Extraordinary Resolution;

(ii) any Security Interest arising by operation of law, **provided that** such Security Interest is discharged within 30 days of arising;

(iii) any Security Interest arising in the ordinary course of banking transactions (such as sale and repurchase transactions and share, loan and bonding lending transactions) **provided that** the Security Interest is limited to the assets which are the subject of the relevant transaction;

(iv) any Security Interest on assets or property existing at the time the Bank or any Subsidiary acquired such assets or property **provided that** such Security Interest was not created in contemplation of such acquisition and does not extend to other assets or property (other than proceeds of such acquired assets or property), **provided that** the maximum amount of Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property or the Indebtedness incurred solely for the purpose of financing the acquisition of such property;

(v) any Security Interest securing Indebtedness of a Person and/or its Subsidiaries existing at the time that such Person is merged into or consolidated with the Bank or a Subsidiary, **provided that** such Security Interest was not created in contemplation of such merger or consolidation and does not extend to any other assets or property of the Bank or any Subsidiary;

(vi) any Security Interest created in connection with any Non recourse Project Financing or Securitisation;

(vii) any Security Interest existing on the date on which agreement is reached to issue the first Tranche of the Notes; and

(viii) any renewal of or substitution for any Security Interest permitted by any of subparagraphs (i) to (vii) above (inclusive) so long as the Relevant Indebtedness secured by such Security Interest is for an amount not materially greater than the principal (and any capitalised interest and fees) of such Relevant Indebtedness and the Security Interest does not extend to any additional property or assets (other than the proceeds of such assets); and

"**Securitisation**" means any securitisation of existing or future assets and/or revenues, provided that (i) any Security Interest given by the Bank in connection therewith is limited solely to the assets and/or revenues which are the subject of the securitisation; (ii) each person participating in such securitisation expressly agrees to limit its recourse to the assets and/or revenues so securitised as the principal source of repayment for the money advanced or payment of any other liability; and (iii) there is no other recourse to the Bank in respect of any default by any person under the securitisation.

7. Fixed Rate Note Provisions

(a) ***Application***: This Condition 7 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note provisions are specified in the applicable Final Terms as being applicable.

(b) ***Accrual of interest***: The Notes bear interest from, and including, the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) and Condition 12 (*Payments – Registered Notes*), as applicable. Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 7 (*Fixed Rate Note Provisions*) (after as well as before judgment) until whichever is the earlier of: (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) ***Fixed Coupon Amount***: The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) ***Calculation of interest amount***: The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

8. Floating Rate Note Provisions

(a) ***Application***: This Condition 8 (*Floating Rate Note Provisions*) is applicable to the Notes only if the Floating Rate Note provisions are specified in the applicable Final Terms as being applicable.

(b) ***Accrual of interest***: The Notes bear interest from, and including, the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) and Condition 12 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 8(b) (*Floating Rate Note Provisions – Accrual of interest*) (as well after as before judgment) until whichever is the earlier of: (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) ***Screen Rate Determination***: If Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page (or such replacement page on that service which displays the information) as of the Relevant Time on the relevant Interest Determination Date;

(ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page (or such replacement page on that service which displays the information) as of the Relevant Time on the relevant Interest Determination Date;

(iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, and **provided further that** such inability is not due to the occurrence of a Benchmark Event (as defined in Condition 8(k) below), the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

If the Rate of Interest cannot be determined because of the occurrence of a Benchmark Event, the Rate of Interest shall be calculated in accordance with the terms of Condition 8(k).

In the Conditions, "**Reference Rate**" means one of the following benchmark rates (as specified in the applicable Final Terms) in respect of the currency and period specified in the applicable Final Terms:

- Euro interbank offered rate ("**EURIBOR**");
- London interbank bid rate ("**LIBID**");

- London interbank offered rate ("**LIBOR**");
- London interbank mean rate ("**LIMEAN**");
- Shanghai interbank offered rate ("**SHIBOR**");
- Hong Kong interbank offered rate ("**HIBOR**");
- Singapore interbank offered rate ("**SIBOR**");
- Emirates interbank offered rate ("**EIBOR**");
- Saudi Arabia interbank offered rate ("**SAIBOR**");
- Australia Bank Bill Swap ("**BBSW**");
- Australian dollar LIBOR ("**AUD LIBOR**")
- Japanese Yen LIBOR ("**JPY LIBOR**");
- Prague interbank offered rate ("**PRIBOR**");
- CNH Hong Kong interbank offered rate ("**CNH HIBOR**");
- Turkish Lira interbank offered rate ("**TRLIBOR**" or "**TRYLIBOR**");
- Tokyo interbank offered rate ("**TIBOR**");
- British pound sterling LIBOR ("**GBP LIBOR**");
- Swiss franc LIBOR ("**CHF LIBOR**");
- Canadian dollar LIBOR ("**CAD LIBOR**");
- New Zealand dollar LIBOR ("**NZD LIBOR**");
- Danish krone LIBOR ("**DKK LIBOR**");
- Swedish krona LIBOR ("**SEK LIBOR**");
- Mumbai interbank offered rate ("**MIBOR**"); and
- New Zealand bank bill benchmark ("**BKBM**").

(d) ***ISDA Determination***: If ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the applicable Final Terms;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the applicable Final Terms; and

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either: (A) if the relevant Floating Rate Option is based on the **LIBOR** or on the **EURIBOR** for a currency, the first day of that Interest Period; or (B) in any other case, as specified in the applicable Final Terms.

(e) ***Maximum or Minimum Rate of Interest***: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the applicable Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified. Unless otherwise specified in the Final Terms, the Minimum Rate of Interest for Floating Rate Notes shall be zero.

(f) ***Calculation of Interest Amount***: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(g) ***Calculation of other amounts***: If the applicable Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the applicable Final Terms.

(h) ***Publication***: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(i) ***Notifications etc.***: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 8(i) (*Floating Rate Note Provisions – Notifications etc.*) by the Calculation Agent will (in the absence of manifest error) be binding on the Bank, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(j) ***Linear Interpolation***: Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period **provided however that** if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**Designated Maturity**" means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(k) **Benchmark Replacement**

Notwithstanding the provisions above in this Condition 8, if the Bank determines that a Benchmark Event has occurred or considers that there may be a Successor Rate, in either case, when any Rate of Interest (or the relevant component part thereof) remains to be determined by reference to a Reference Rate, then the following provisions shall apply:

(i) the Bank shall use reasonable endeavours to appoint an Independent Adviser to determine a Successor Rate or, alternatively, if the Independent Adviser determines that there is no Successor Rate, an Alternative Reference Rate no later than 3 Business Days prior to the relevant Interest Determination Date relating to the next succeeding Interest Period (the "**IA Determination Cut-off Date**") for purposes of determining the Rate of Interest applicable to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 8(k));

(ii) if the Bank is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine a Successor Rate or an Alternative Reference Rate prior to the IA Determination Cut-off Date in accordance with subparagraph (i) above, then the Bank (acting in good faith) may determine a Successor Rate or, if the Bank determines that there is no Successor Rate, an Alternative Reference Rate for purposes of determining the Rate of Interest applicable to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 8(k)); provided, however, that if this subparagraph (ii) applies and the Bank is unable or unwilling to determine a Successor Rate or an Alternative Reference Rate prior to the Interest Determination Date relating to the next succeeding Interest Period in accordance with this subparagraph (ii), the Rate of Interest applicable to such Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of a preceding Interest Period (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period for which the Rate of Interest was determined, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period);

(l) if a Successor Rate or an Alternative Reference Rate is determined in accordance with the preceding provisions, such Successor Rate or Alternative Reference Rate (as applicable) shall be the Reference Rate for all future Interest Periods (subject to the subsequent operation of this Condition 8(l));

(m) if the Independent Adviser (in consultation with the Bank) or (if the Bank is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine whether an Adjustment Spread should be applied) the Bank determines that an Adjustment Spread should be applied to the relevant Successor Rate or the relevant Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to such Successor Rate or Alternative Reference Rate (as applicable). If the Independent Adviser or the Bank (as applicable) is unable to determine, prior to the Interest Determination Date relating to the next succeeding Interest Period, the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread;

(n) if the Independent Adviser or the Bank (as the case may be) determines a Successor Rate or an Alternative Reference Rate or, in each case, any Adjustment Spread, in accordance with the above provisions, the Independent Adviser or the Bank may also specify changes to the Day Count Fraction, Relevant Screen Page, Business Day Convention, Business Day, Interest Determination Date, Interest Payment Dates and/or the definition of Reference Rate or Adjustment Spread applicable to the Notes (and in each case, related provisions and definitions), and the method for determining the fallback rate in relation to the Notes, in order to follow market practice in relation to such Successor Rate or Alternative Reference Rate (as applicable), which changes shall apply to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition

8(n)). An Independent Adviser appointed pursuant to this Condition 8(n) shall act in good faith and (in the absence of bad faith, gross negligence and wilful misconduct) shall have no liability whatsoever to the Bank, the Paying Agent or Noteholders for any determination made by it or for any advice given to the Bank in connection with any determination made by the Bank pursuant to this Condition 8(n). No Noteholder consent shall be required in connection with effecting the Successor Rate or the Alternative Reference Rate (as applicable), any Adjustment Spread or such other changes, including for the execution of any documents, amendments or other steps by the Bank or the Principal Paying Agent (if required); and

(o) the Bank shall promptly following the determination of any Successor Rate, Alternative Reference Rate or Adjustment Spread give notice thereof and of any changes pursuant to subparagraph (e) above to the Paying Agent and the Noteholders.

As used in these Conditions:

"**Adjustment Spread**" means a spread (which may be positive or negative) or formula or methodology for calculating a spread, which the Independent Adviser (in consultation with the Bank) or the Bank (as applicable), determines is required to be applied to the relevant Successor Rate or the relevant Alternative Reference Rate (as applicable), as a result of the replacement of the Reference Rate (as applicable) with the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

(i) in the case of a Successor Rate, is recommended in relation to the replacement of the Reference Rate (as applicable) with the Successor Rate by any Relevant Nominating Body; or

(ii) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser (in consultation with the Bank) or the Bank (as applicable) determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Reference Rate (as applicable) where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or

(iii) if no such customary market usage is recognised or acknowledged, the Independent Adviser (in consultation with the Bank) or the Bank in its discretion (as applicable), determines (acting in good faith and in a commercially reasonable manner) to be appropriate;

"**Alternative Reference Rate**" means the rate (and related alternative screen page or source, if available) that the Independent Adviser or the Bank (as applicable) determines has replaced the relevant Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest in respect of notes denominated in the Specified Currency and of a comparable duration to the relevant Interest Period or, if the Independent Adviser or the Bank (as applicable) determines that there is no such rate, such other rate as the Independent Adviser or the Bank (as applicable) determines in its discretion (acting in good faith) is most comparable to the relevant Reference Rate (as applicable);

"**Benchmark Event**" means:

(i) the relevant Reference Rate has ceased to exist or has ceased to be published on the Relevant Screen Page as a result of such benchmark ceasing to be calculated or administered; or

(ii) a public statement by the administrator of the relevant Reference Rate that it will cease publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate); or

(iii) a public statement by the supervisor of the administrator of the relevant Reference Rate (as applicable) that such Reference Rate has been or will be permanently or indefinitely discontinued; or

(iv) a public statement by the supervisor of the administrator of the relevant Reference Rate that means that the Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences; or

(v) it has or will become unlawful for the Calculation Agent, the Paying Agent or the Bank to calculate any payments due to be made to any Noteholder using the relevant Reference Rate (including, without limitation, under the Benchmark Regulation (EU) 2016/1011, if applicable);

"**Independent Adviser**" means an independent financial institution of international repute or an independent adviser of recognised standing with appropriate expertise, in each case appointed by the Bank at its own expense;

"**Relevant Nominating Body**" means, in respect of a reference rate:

(i) the central bank, reserve bank, monetary authority or any similar institution for the currency to which the reference rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the reference rate; or

(ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of:

(A) the central bank, reserve bank, monetary authority or any similar institution for the currency to which the reference rate relates;

(B) any central bank or other supervisory authority which is responsible for supervising the administrator of the reference rate;

(C) a group of the aforementioned central banks or other supervisory authorities;

(D) the International Swaps and Derivatives Association, Inc. or any part thereof; or

(E) the Financial Stability Board or any part thereof; and

"**Successor Rate**" means the reference rate (and related alternative screen page or source, if available) that the Independent Adviser or the Bank (as applicable) determines is a successor to or replacement of the relevant Reference Rate (for the avoidance of doubt, whether or not such Reference Rate has ceased to be available) which is recommended by any Relevant Nominating Body.

9. Zero Coupon Note Provisions

(a) ***Application***: This Condition 9 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note provisions are specified in the applicable Final Terms as being applicable.

(b) ***Late payment on Zero Coupon Notes***: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of: (A) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and (B) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

10. **Redemption and Purchase**

(a) ***Scheduled redemption***: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) and Condition 12 (*Payments – Registered Notes*).

(b) ***Redemption for tax reasons***: The Notes may be redeemed at the option of the Bank in whole, but not in part:

(i) at any time (if the Floating Rate Note provisions are specified in the applicable Final Terms as being not applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note provisions are specified in the applicable Final Terms as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

(A) the Bank has or will become obliged to pay additional amounts as provided or referred to in Condition 13 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the United Arab Emirates or any Emirate therein or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and

(B) such obligation cannot be avoided by the Bank taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than:

(1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Bank would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or

(2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Bank would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this Condition 10(b) (*Redemption and Purchase – Redemption for tax reasons*), the Bank shall deliver or procure that there is delivered to the Fiscal Agent: (A) a certificate signed by two directors of the Bank stating that the Bank is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Bank so to redeem have occurred; and (B) an opinion of independent legal advisers of recognised standing to the effect that the Bank has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 10(bb) (*Redemption and Purchase – Redemption for tax reasons*), the Bank shall be bound to redeem the Notes in accordance with this Condition 10(b) (*Redemption and Purchase – Redemption for tax reasons*).

(c) ***Redemption at the option of the Bank***: If the Call Option is specified in the applicable Final Terms as being applicable, the Notes may be redeemed at the option of the Bank in whole or, if so specified in the applicable Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Bank's giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Bank to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(d) ***Partial redemption***: If the Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption and Purchase – Redemption at the option of the Bank*):

(i) in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 10(c) (*Redemption and Purchase – Redemption at the option of the Bank*) shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the applicable Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified; and

(ii) in the case of Registered Notes, the Notes shall be redeemed (so far as may be practicable) *pro rata* to their principal amounts subject always to compliance with all applicable laws and the requirements of any listing authority, stock exchange or quotation system on which the relevant Notes may be listed, traded or quoted.

In the case of the redemption of part only of a Registered Note, a new Registered Note in respect of the unredeemed balance shall be issued in accordance with Condition 4 (*Transfers of Registered Notes*) which shall apply as in the case of a transfer of Registered Notes as if such new Registered Note were in respect of the untransferred balance.

(e) **Redemption at the option of Noteholders:**

If the Put Option is specified in the applicable Final Terms as being applicable, the Bank shall, at the option of the holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10(e) (*Redemption and Purchase – Redemption at the option of Noteholders*), the holder of a Note must, not less than 30 nor more than 60 days' before the relevant Optional Redemption Date (Put), deposit at the Specified Offices of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent or Registrar specifying the aggregate Outstanding Principal Amount in respect of which such option is exercised. The Paying Agent or Registrar with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing holder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(e) (*Redemption and Purchase – Redemption at the option of Noteholders*), may be withdrawn; **provided that** if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent or Registrar, as the case may be, shall mail notification thereof to the depositing holder at such address as may have been given by such holder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing holder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent or Registrar, as the case may be, in accordance with this Condition 10(e) (*Redemption and Purchase – Redemption at the option of Noteholders*), the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.

The holder of a Note may not exercise such Put Option in respect of any Note which is the subject of an exercise by the Bank of its Call Option.

In the case of the redemption of part only of a Registered Note, a new Registered Note in respect of the unredeemed balance shall be issued in accordance with Condition 4 (*Transfers of Registered Notes*) which shall apply as in the case of a transfer of Registered Notes as if such new Registered Note were in respect of the untransferred balance.

If Change of Ownership Put is specified in the applicable Final Terms and if a Change of Ownership Event occurs, the Bank will, upon the holder of any Note giving notice within the Change of Ownership Put Period to the Bank in accordance with Condition 15 (*Notices*) (unless prior to the giving of the relevant Change of Ownership Notice (as defined below) the Bank has given notice of redemption under Condition 10(b) or 10(c), redeem or, at the Bank's option, purchase (or procure the purchase of) such Note on the Change of Ownership Put Date at the Change of Ownership Redemption Amount together (if applicable) with interest accrued to but excluding the Change of Ownership Put Date.

Promptly upon the Bank becoming aware that a Change of Ownership Event has occurred, the Bank shall give notice (a "**Change of Ownership Notice**") to the Noteholders in accordance with Condition 15 (*Notices*) to that effect.

If 75 per cent. or more in nominal amount of the Notes then outstanding have been redeemed or, as the case may be, purchased, pursuant to this Condition 10(e)(ii), the Bank may, on giving not less than the minimum period nor more than the maximum period of notice as specified in the applicable Final Terms to the Noteholders in accordance with Condition 15 (*Notices*) (such notice to be given within 30 days of the Change of Ownership Put Date), redeem or, at the Bank's option, purchase (or procure the purchase of) all but not some only of the remaining outstanding Notes at their Change of Ownership Redemption Amount together (if applicable) with interest accrued to but excluding the date fixed for redemption or purchase, as the case may be.

For the purpose of these Conditions:

"**Change of Ownership Event**" shall occur each time the federal government of the United Arab Emirates or any department, agency or authority thereof (the "**Government**") or any entity wholly owned by the Government:

(i) sells, transfers or otherwise disposes of any of the issued share capital of the Bank, other than to a department, agency or authority of the Government or an entity, directly or indirectly, wholly-owned by the Government; or

(ii) otherwise ceases to own (directly or indirectly) all of the issued share capital of the Bank;

"**Change of Ownership Redemption Amount**" shall mean, in relation to each Note to be redeemed or purchased pursuant to the Change of Ownership Put Option, an amount equal to the nominal amount of such Note or such other amount as may be specified in the applicable Final Terms;

"**Change of Ownership Put Date**" shall be the tenth day after the expiry of the Change of Ownership Put Period provided that, if such day is not a day on which banks are open for general business in both London and the principal financial centre of the Specified Currency the Change of Ownership Put Date shall be the next following day on which banks are open for general business in both London and the principal financial centre of the Specified Currency; and

"**Change of Ownership Put Period**" shall be the period of 30 days commencing on the date that a Change of Ownership Notice is given.

(f) **No other redemption**: The Bank shall not be entitled to redeem the Notes otherwise than as provided in Conditions 10(a) (*Redemption and Purchase – Scheduled redemption*) to 10(e) (*Redemption and Purchase – Redemption at the option of Noteholders*) above.

(g) **Early redemption of Zero Coupon Notes**: Unless otherwise specified in the applicable Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 10(g) (*Redemption and Purchase – Early redemption of Zero Coupon Notes*) or, if none is so specified, a Day Count Fraction of 30E/360.

(h) ***Purchase***: The Bank or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith. Such Notes may be held, reissued, resold or, at the option of the Bank, surrendered to any Paying Agent or the Registrar for cancellation.

(i) ***Cancellation***: All Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons attached to or surrendered with them). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 10(h) (*Redemption and Purchase – Purchase*) above (together with all unmatured coupons cancelled therewith) shall be forwarded to the Fiscal Agent and cannot be reissued or resold.

11. Payments – Bearer Notes

This Condition 11 (*Payments – Bearer Notes*) is applicable in relation to Bearer Notes.

(a) ***Principal***: Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London).

(b) ***Interest***: Payments of interest shall, subject to Condition 11(h) (*Payments – Bearer Notes – Payments other than in respect of matured Coupons*) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in Condition 11(a) (*Payments – Bearer Notes – Principal*) above.

(c) ***Payments in New York City***: Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if: (i) the Bank has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Bearer Notes in the currency in which the payment is due when due; (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions; and (iii) payment is permitted by applicable United States law.

(d) ***Payments subject to fiscal laws***: All payments in respect of the Bearer Notes are subject in all cases to: (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*); and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or (without prejudice to the provisions of Condition 13 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) ***Deductions for unmatured Coupons***: If the applicable Final Terms specifies that the Fixed Rate Note provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment; or

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided that** where this paragraph (A) would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in Condition 11(a) (*Payments – Bearer Notes – Principal*) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

(f) ***Unmatured Coupons void***: If the applicable Final Terms specifies that this Condition 11(f) (*Payments – Bearer Notes – Unmatured Coupons void*) is applicable or that the Floating Rate Note provisions are applicable, on the due date for final redemption of any Bearer Note or early redemption in whole of such Bearer Note pursuant to Condition 10(b) (*Redemption and Purchase – Redemption for tax reasons*), Condition 10(c) (*Redemption and Purchase – Redemption at the option of the Bank*), Condition 10(e) (*Redemption and Purchase – Redemption at the option of Noteholders*) or Condition 14 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(g) ***Payments on business days***: If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(h) ***Payments other than in respect of matured Coupons***: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by Condition 11(c) (*Payments – Bearer Notes – Payments in New York City*) above).

(i) ***Partial payments***: If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(j) ***Exchange of Talons***: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 15 (*Prescription*)). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Bearer Note shall become void and no Coupon will be delivered in respect of such Talon.

12. Payments – Registered Notes

This Condition 12 (*Payments – Registered Notes*) is applicable in relation to Registered Notes.

(a) ***Redemption Amount***: Payments of the Redemption Amount (together with accrued interest) due in respect of Registered Notes shall be made in the currency in which such amount is due against presentation, and save in the case of partial payment of the Redemption Amount, surrender of the relevant Registered Notes at the Specified Office of any Paying Agent. If the due date for payment of the Redemption Amount of any Registered Note is not a business day (as defined below), then the Noteholder will not be entitled to payment until the next business day, and from such day and thereafter will be entitled to payment by cheque (which may be posted to the address (as recorded in the register held by the Registrar) of the Noteholder thereof (or, in the case of joint Noteholders, the first-named)) on any Relevant Banking Day, or will be entitled to payment by transfer to a designated account on any day which is a Relevant Banking Day, business day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is subsequent failure to pay in accordance with these Conditions, in which event interest shall continue to accrue as provided in these Conditions.

(b) ***Principal and interest***: Payments of principal and interest shall be made by cheque drawn in the currency in which the payment is due to the Noteholder (or in the case of joint Noteholders, the first-named) appearing in the register kept by the Registrar as at the opening of business (as at the local time) on the fifteenth Relevant Banking Day before the due date for payment (the "**Record Date**"), and posted to the address (as recorded in the register held by the Registrar) of the Noteholder (or, in the case of joint Noteholders, the first named) on the Relevant Banking Day unless prior to the relevant Record Date such Noteholder has applied to a Paying Agent and such Paying Agent has acknowledged such application, for payment to be made to a designed account denominated in the relevant currency in which case payment shall be made on the relevant due date for payment by transfer to such account. In the case of payment by transfer to a designated account, if the due date for any such payment is not a business day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located, then the Noteholder will not be entitled to payment thereof until the first day thereafter which is a business day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is subsequent failure to pay in accordance with these Conditions, in which event interest shall continue to accrue as provided in these Conditions.

(c) ***Payments subject to fiscal laws***: All payments in respect of the Registered Notes are subject in all cases to: (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*); and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or (without prejudice to the provisions of Condition 13 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Registered Noteholders in respect of such payments.

In this Condition 12 (*Payments – Registered Notes*), "**business day**" means:

(i) any day which is in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in each Additional Financial Centre; or

(ii) in the case of surrender of a Registered Note, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the place in which the Registered Note is surrendered.

13. Taxation

(a) ***Gross up***: All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Bank shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Arab Emirates, or any Emirate therein, or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Bank shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

(i) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the United Arab Emirates or any Emirate therein or any political subdivision or any authority thereof or therein having power to tax other than the mere holding of the Note or Coupon; or

(ii) more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

(b) ***Taxing jurisdiction***: If the Bank becomes subject at any time to any taxing jurisdiction other than the United Arab Emirates, or any Emirate therein, references in these Conditions to the United Arab Emirates, or any Emirate therein, shall be construed as references to the United Arab Emirates and/or such other jurisdiction, as the case may be.

14. Events of Default

(a) ***Events of Default for Senior Notes***: This Condition 14(a) (Events of Default for Senior Notes) only applies to Senior Notes.

If any one or more of the following events (each an "**Event of Default**") occurs and is continuing:

(i) *Non-payment*: the Bank fails to pay any amount of principal in respect of the Notes and the default continues for a period of seven days or fails to pay any amount of interest in respect of the Notes and the default continues for a period of 14 days; or

(ii) *Breach of other obligations*: the Bank defaults in the performance or observance of any of its other obligations under or in respect of the Notes and such default remains unremedied for 45 days after written notice thereof, addressed to the Bank by any Noteholder, has been delivered to the Bank; or

(iii) *Cross-acceleration of Bank*:

(A) any Indebtedness of the Bank is not paid when due or (as the case may be) within any originally applicable grace period;

(B) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Bank or (**provided that** no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; or

(C) the Bank fails to pay when due (after expiration of any applicable grace period) any amount payable by it under any Guarantee of any Indebtedness,

provided that such an event listed in sub-paragraphs (A), (B) and/or (C) above shall not constitute an Event of Default unless the aggregate amount of all such indebtedness, either alone or when aggregated with all other indebtedness in respect of which such an event shall have occurred and be continuing shall be more than U.S.$50,000,000 (or its equivalent in any other currency or currencies); or

(iv) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any substantial part of the undertaking, assets and revenues of the Bank; or

(v) *Insolvency etc.*: (i) the Bank becomes insolvent; (ii) an administrator or liquidator is appointed (or application for any such appointment is made and such application is not being actively contested in good faith) of the Bank or the whole or any substantial part of the undertaking or assets and revenues of the Bank; or (iii) the Bank takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it save, in all cases, in connection with a Permitted Reorganisation; or

(vi) *Winding up etc.*: an order is made by any competent court or an effective resolution is passed for the winding up or dissolution of the Bank, save in connection with a Permitted Reorganisation; or

(vii) *Analogous event*: any event occurs which under the laws of the United Arab Emirates has an analogous effect to any of the events referred to in Conditions 14(a)(iv) (*Events of Default – Events of Default for Senior Notes – Security enforced*) to 14(a)(vi) (*Events of Default – Events of Default for Senior Notes – Winding up etc.*) above; or

(viii) *Unlawfulness*: it, as a result of any change in, or amendment to, the laws or regulations in the United Arab Emirates or any Emirate therein, which change or amendment takes place after the date on which agreement is reached to issue the first Tranche of Notes, becomes unlawful for the Bank to perform or comply with any of its obligations under or in respect of the Notes,

then any Note may, by written notice addressed by the holder thereof to the Bank and delivered to the Bank or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its Early Termination Amount together with accrued interest (if any) without further action or formality.

(b) ***Event of Default for Subordinated Notes***: This Condition 14(b) (Events of Default – Events of Default for Subordinated Notes) only applies to Subordinated Notes.

(i) *Non-payment*: if default is made in the payment of any principal or interest due under the Notes or any of them and the default continues for a period of 7 days in the case of principal and 14 days in the case of interest, any Noteholder may institute proceedings in the United Arab Emirates or any Emirate therein (but not elsewhere) for the dissolution and liquidation of the Bank.

If any one or more of the following events shall occur and be continuing:

(A) *Insolvency etc.*: (i) the Bank becomes insolvent; (ii) an administrator or liquidator of the Bank or the whole or any substantial part of its undertaking or assets and revenues of the Bank is appointed (or application for any such appointment is made and such application is not being actively contested in good faith); or (iii) the Bank takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it save, in all cases, in connection with a Permitted Reorganisation; or

(B) *Winding up etc.*: an order is made by any competent court or an effective resolution is passed for the winding up or dissolution of the Bank save in connection with a Permitted Reorganisation; or

(C) *Analogous event*: any event occurs which under the laws of the United Arab Emirates has an analogous effect to any of the events referred to in paragraphs (A) or (B) above,

then any Note may, by written notice addressed by the holder thereof to the Bank and delivered to the Bank or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its Early Termination Amount together with accrued interest (if any) without further action or formality.

(ii) *Breach of obligations*: To the extent permitted by applicable law and by these Conditions, a Noteholder may at its discretion institute such proceedings against the Bank as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Bank under the Notes or the Coupons, but the institution of such proceedings shall not have the effect that the Bank shall be obliged to pay any sum or sums sooner than would otherwise have been payable by it.

(iii) *Other Remedies*: No remedy against the Bank, other than the institution of the proceedings referred to in Conditions 14(b)(i) (*Events of Default – Events of Default for Subordinated Notes – Non payment*) or 14(b)(iii) (*Events of Default – Events of Default for Subordinated Notes – Breach of obligations*) and the proving or claiming in any dissolution and liquidation of the Bank, shall be available to the Noteholders or the Couponholders whether for the recovering of amounts owing in respect of the Notes or the Coupons or in respect of any breach by the Bank of any other obligation, condition or provision binding on it under the Notes or the Coupons.

15. Prescription

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

16. Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Paying Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system) (in the case of Bearer Notes or Coupons) or the Registrar (in the case of Registered Notes), subject to all applicable laws and competent authority, stock and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Bank may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

17. Agents

Obligations of Agents: In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents, the Calculation Agent and the Registrar act solely as agents of the Bank and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders, and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon it in the Agency Agreement or other agreement entered into with respect to its appointment or incidental thereto.

The initial Paying Agent and Registrar and their initial Specified Offices are listed in the Agency Agreement. The initial Calculation Agent (if any) is specified in the applicable Final Terms. The Bank reserves the right at any time to vary or terminate the appointment of any Paying Agent (including the Fiscal Agent) or the Registrar or the Calculation Agent and to appoint a successor fiscal agent, paying agent, calculation agent or registrar; **provided that**:

(i) the Bank shall at all times maintain a Fiscal Agent;

(ii) the Bank shall at all times maintain, in the case of Registered Notes, a Registrar;

(iii) if a Calculation Agent is specified in the applicable Final Terms, the Bank shall at all times maintain a Calculation Agent;

(iv) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Bank shall maintain a Paying Agent (which may be the Fiscal Agent) and a Registrar (for Registered Notes) each with a Specified Office in the place required by such competent authority, stock exchange and/or quotation system; and

(v) in the circumstances described in Condition 11(c) (*Payments – Bearer Notes – Payments in New York City*), a paying agent with a Specified office in New York City.

Notice of any change in the Paying Agent, the Registrar, the Calculation Agent or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 20 (*Notices*).

18. Meetings of Noteholders; Modification and Waiver

(a) ***Meetings of Noteholders***: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Bank and shall be convened by it upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) ***Modification***: The Bank and the Fiscal Agent may agree that the Notes, the Coupons or the Agency Agreement may be amended without the consent of the Noteholders or the Couponholders to correct a manifest or proven error or to comply with mandatory provisions of law or agree to modify any provision thereof, but the Bank shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature. In addition, the Bank and the Fiscal Agent may only agree to any modification of the Notes, Coupons or the Agency Agreement which, in the opinion of such parties, is not materially prejudicial to the interests of the Noteholders.

19. **Further Issues**

The Bank may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue (so that, for the avoidance of doubt, references in the conditions of such notes to "Issue Date" shall be to the first issue date of the Notes)), and so as to form a single series with the Notes.

20. **Notices**

(a) ***Bearer Notes***: Notices to holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the Financial Times) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

(b) ***Registered Notes***: Notices to holders of Registered Notes will be deemed to be validly given if sent by first class mail (or equivalent) or (if posted to an address overseas) by airmail to them (or the first named of joint holders) at their respective addresses recorded in the register kept by the Registrar, and will be deemed to have been given on the fourth business day after the date of such after mailing.

21. **Rounding**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the applicable Final Terms): (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.); (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up); (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount; and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency (with 0.005 being rounded upwards).

22. **Governing Law and Jurisdiction**

(a) ***Governing law***

The Agency Agreement, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Notes (including the remaining provisions of this Condition 22(a) (*Governing Law and Jurisdiction – Governing law*)), the Receipts and the Coupons, are and shall be governed by, and construed in accordance with, English law.

(b) ***Agreement to arbitrate***

Subject to Condition 22(c) (*Governing Law and Jurisdiction – Option to litigate*), any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Notes, the Receipts and/or the Coupons (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them)

("**Dispute**") shall be referred to and finally resolved by arbitration under the arbitration rules of the London Court of International Arbitration ("**LCIA**") (the "**Arbitration Rules**"), which Arbitration Rules are deemed to be incorporated by reference into this Condition 21 (*Governing Law and Jurisdiction*). For these purposes:

(i) the seat or legal place of arbitration shall be London, England;

(ii) there shall be three arbitrators, each of whom shall be disinterested in the arbitration, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions. The parties to a Dispute shall each nominate one arbitrator and both arbitrators in turn shall appoint a further arbitrator who shall be the chairman of the tribunal. In cases where there are multiple claimants and/or multiple respondents, the class of claimants jointly and the class of respondents jointly shall each nominate one arbitrator. If one party or both fails to nominate an arbitrator within the time limits specified by the Arbitration Rules, such arbitrator(s) shall be appointed by the LCIA Court. If the party nominated arbitrators fail to nominate the third arbitrator within 15 days of the appointment of the second arbitrator, such arbitrator shall be appointed by the LCIA Court; and

(iii) the language of the arbitration shall be English.

(c) ***Option to litigate***

Notwithstanding Condition 22(b) (*Governing Law and Jurisdiction – Agreement to arbitrate*), the Noteholder may, in the alternative, and at its sole discretion, by notice in writing to the Bank:

(i) within 28 days of service of a Request for Arbitration (as defined in the Arbitration Rules); or

(ii) if no arbitration has commenced,

require that a Dispute be heard by a court of law. If a Noteholder gives such notice, the Dispute to which such notice refers shall be determined in accordance with Condition 22(d) (*Governing Law and Jurisdiction – Effect of exercise of option to litigate*) and, subject as provided below, any arbitration commenced under Condition 22(b) (*Governing Law and Jurisdiction – Agreement to arbitrate*) in respect of that Dispute will be terminated. Each of the Noteholder and the recipient of such notice will bear its own costs in relation to the terminated arbitration.

If any notice to exercise the option to litigate is given after service of any Request for Arbitration in respect of any Dispute, the Noteholder must also promptly give notice to the LCIA Court and to any Tribunal (each as defined in the Arbitration Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

(iii) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;

(iv) his entitlement to be paid his proper fees and disbursements; and

(v) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

(d) ***Effect of exercise of option to litigate***

In the event that a notice pursuant to Condition 22(c) (*Governing Law and Jurisdiction – Option to litigate*) is issued, the following provisions shall apply:

(i) subject to paragraph (iii) below, the courts of England shall have exclusive jurisdiction to settle any Dispute and the Bank submits to the exclusive jurisdiction of such courts;

(ii) the Bank agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and

(iii) this Condition 22(d) (*Governing Law and Jurisdiction – Effect of exercise of option to litigate*) is for the benefit of the Noteholders only. As a result, and notwithstanding paragraph (i) above, the Noteholders may take proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) ***Process agent***: The Bank agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Maples and Calder, 11th Floor, 200 Aldersgate Street, London EC1A 4HD, England (the "**Process Agent**") or at any other address for the time being at which process may be served on it in accordance with Section 1139 of the Companies Act 2006 (as modified or re-enacted from time to time). If the Process Agent ceases to have a branch in England which can accept service of process on the Bank's behalf, the Bank shall, on the written demand of any Noteholder addressed and delivered to the Bank or to the Specified Office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Bank and delivered to the Bank or to the Specified Office of the Fiscal Agent. Nothing in this Condition shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

(f) ***Waiver:*** The Bank irrevocably agrees that, should any Proceedings be taken anywhere (whether for any injunction, specific performance, damages or otherwise), no immunity (to the extent that it may at any time exist, whether on the grounds of sovereignty or otherwise) in relation to those Proceedings (including without limitation, immunity from the jurisdiction of any court or tribunal, suit, service of process, injunctive or other interim relief, any order for specific performance, any order for recovery of land, any attachment (whether in aid of execution, before judgment or otherwise) of its assets, any process for execution of any award or judgment or other legal process) shall be claimed by it or on its behalf or with respect to its assets, any such immunity being irrevocably waived. The Bank irrevocably agrees that it and its assets (irrespective of its use or intended use) are, and shall be, subject to such Proceedings, attachment or execution in respect of its obligations under the Notes. Notwithstanding the foregoing, the Bank makes no representation as to whether Article 247 of Federal Law No. 11 of 1992 regarding the Law of Civil Procedure will apply to its assets, revenue or property or whether such law can be waived.

(g) ***Consent to enforcement etc.***: The Bank consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

23. Rights of Third Parties

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** - The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended or superseded, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[**MiFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET** – Solely for the purposes of [the]/[each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**")]/[MiFID II]); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[**Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore** (the "**SFA**") - [*Notice to be included if classification of the Notes is not "prescribed capital markets products", pursuant to Section 309B of the SFA.*]]

Final Terms dated [•]

Emirates Development Bank P.J.S.C.

Legal Entity Identifier: 5493002OSL5GLN4HID57

Issue of [Aggregate Principal Amount of Tranche] [Title of Notes]

under the U.S.$3,000,000,000

Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 18 February 2019 [and the supplementary prospectus dated [•]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**"). This document constitutes the Final Terms relating to the issue of Notes described herein and must be read in conjunction with the Base Prospectus [and the supplementary prospectus].

Full information on the Bank and the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplementary prospectus] [is] [are] available for viewing at and on the Dubai Financial Service Authority's website (https://www.dfsa.ae/DFSA-Listing-Authority/Approved-Documents) and are available for inspection upon reasonable notice being given and during usual business hours from the registered office of the Bank at Aradah Road, Abu Dhabi, United Arab Emirates, P.O. Box 51515 and the Fiscal Agent at Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB, United Kingdom.]

1.	Issuer:		Emirates Development Bank P.J.S.C.
2.	(i)	[Series Number:]	[•]
	(ii)	[Tranche Number:]	[•]
	(iii)	[Date on which the Notes become fungible:]	[•]/[Not Applicable]
3.	Specified Currency or Currencies:		[•]
4.	Aggregate Principal Amount:		
	(i)	[Series:]	[•]
	(ii)	[Tranche:]	[•]
5.	Issue Price:		[•] per cent. of the Aggregate Principal Amount [plus accrued interest from [•]]/[Not specified]
6.	(i)	Specified Denominations:	[•]
	(ii)	Calculation Amount:	[•]
7.	(i)	[Issue Date:]	[•]
	(ii)	[Interest Commencement Date:]	[[•]/Issue Date/Not Applicable]
8.	Maturity Date:		[•]
9.	Interest Basis:		[[•] per cent. Fixed Rate] [[•] +/- [•] per cent. Floating Rate] [Zero Coupon]
10.	Redemption/Payment Basis:		Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [•] per cent. of their principal amount.
11.	Change of Interest or Redemption/Payment Basis:		[Applicable/Not Applicable]
12.	Put/Call Options:		[Not Applicable] [Investor Put] [Issuer Call] [Change of Ownership Put]
13.	(i)	Status of the Notes:	[Senior/Subordinated]
	(ii)	[Date [Board] approval for issuance of Notes obtained:	[•]]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	**Fixed Rate Note Provisions**	[Applicable/Not Applicable]

	(i)	Rate[(s)] of Interest:	[•] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(ii)	Interest Payment Date(s):	[•] in each year
	(iii)	[First Interest Payment Date:	[•]]
	(iv)	Fixed Coupon Amount[(s)]:	[[•] per Calculation Amount]/[Not Applicable]
	(v)	Broken Amount(s):	[•]/[Not Applicable]
	(vi)	Day Count Fraction:	[30/360] [Actual/Actual (ICMA/ISDA)] [Actual/365 (Fixed)]
	(vii)	Determination Dates:	[[•] in each year]/[Not Applicable]
	(viii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention][Not Applicable]
15.	**Floating Rate Note Provisions**		[Applicable/Not Applicable]
	(i)	Specified Period:	[•]
	(ii)	Specified Interest Payment Dates:	[•][, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to adjustment, as the Business Day Convention in (v) below is specified to be Not Applicable]
	(iii)	[First Interest Payment Date:	[•]]
	(iv)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
	(v)	Additional Business Centre(s):	[[•]/Not Applicable]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Fiscal Agent]):	[[•] shall be the Calculation Agent]
	(viii)	Screen Rate Determination:	
		• Reference Rate:	[LIBOR]/[EURIBOR]/[LIBID]/[LIMEAN]/[SHIBOR]/[HIBOR]/[SIBOR]/[EIBOR]/[SAIBOR]/[BBSW]/[AUD LIBOR]/[JPY LIBOR]/[PRIBOR]/[CNH HIBOR]/[TRLIBOR or TRYLIBOR]/[TIBOR]/[GBP LIBOR]/[CHF LIBOR]/[CAD LIBOR]/[NZD LIBOR]/[DKK LIBOR]/[SEK LIBOR]/[MIBOR]/[BKBM]
		• Interest Determination Date(s):	[•]

	•	Relevant Screen Page:	[•]
	•	Relevant Time:	[•]
	•	Relevant Financial Centre:	[•]
	(ix)	ISDA Determination:	
	•	Floating Rate Option:	[•]
	•	Designated Maturity:	[•]
	•	Reset Date:	[•]
	(x)	Margin(s):	[•] per cent. per annum
	(xi)	Minimum Rate of Interest:	[•] per cent. per annum
	(xii)	Maximum Rate of Interest:	[•] per cent. per annum
	(xiii)	Day Count Fraction:	[Actual/Actual (ICMA)] [Actual/365] [Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360] [30E/360] [Eurobond basis]
	(xiv)	Linear Interpolation:	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]
16.	**Zero Coupon Note Provisions**		[Applicable/Not Applicable]
	(i)	Accrual Yield:	[•] per cent. per annum
	(ii)	Reference Price:	[•]
	(iii)	Day Count Fraction in relation to Early Redemption Amounts:	[30/360] [Actual/Actual (ICMA)] [Actual/365] [Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360] [30E/360] [Eurobond basis]

PROVISIONS RELATING TO REDEMPTION

17.	**Call Option**		[Applicable/Not Applicable]
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
	(iii)	If redeemable in part:	

	(a)	Minimum Redemption Amount:	[•] per Calculation Amount
	(b)	Maximum Redemption Amount:	[•] per Calculation Amount
18.	**Put Option**		[Applicable/Not Applicable]
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
19.	**Change of Ownership Put**		[Applicable/Not Applicable]
	(i)	Change of Ownership Redemption Amount:	[[•] per Calculation Amount]
	(ii)	Notice periods:	Minimum period: [•] Maximum period: [•]
20.	**Final Redemption Amount of each Note**		[•] per cent. of their principal amount
21.	**Early Redemption Amount**		[Applicable/Not Applicable]
	Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default:		[•] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22.	Form of Notes:	Bearer Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note.] [Temporary Global Note exchangeable for Definitive Notes on [•] days' notice.] [Permanent Global Note exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note.] Registered Notes: [Global Registered Notes exchangeable for Individual Registered Notes on [•] days' notice/at any time/in the limited circumstances specified in the Global Registered Note.]
23.	Additional Financial Centre(s):	[•]/[Not Applicable]

24.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No]

25. **THIRD PARTY INFORMATION**

[[•] has been extracted from [•]. The Bank confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced information inaccurate or misleading.]/[Not applicable]

Signed on behalf of **EMIRATES DEVELOPMENT BANK P.J.S.C.**:

By: .... Duly Authorised	By: .... Duly Authorised

PART B – OTHER INFORMATION

1. **LISTING**

(i)	Listing and admission to trading:	[[Application has been made by the Bank (or on its behalf) for the Notes to be admitted to trading on Nasdaq Dubai with effect from [•].] [Application is expected to be made by the Bank (or on its behalf) for the Notes to be admitted to trading on Nasdaq Dubai with effect from [•].]/[Not Applicable]
(ii)	Estimate of total expenses related to admission to trading:	[•]

2. **RATINGS**

Ratings:	[The Notes to be issued have not been rated]/[The Notes to be issued have been rated:] [Fitch: [•]]

3. **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]**

[Save for any fees payable to the [Managers/Dealers], so far as the Bank is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Bank and its affiliates in the ordinary course of business for which they may receive fees.]

4. **[USE OF PROCEEDS]**

[*If not for general corporate purposes such as, for example, a "green project"*]

5. **[Fixed Rate Notes only – YIELD**

Indication of yield:	[•]]

6. **U.S. SELLING RESTRICTIONS** — Regulation S Compliance Category 2

7. **[TEFRA C/TEFRA D/TEFRA not applicable]**

8. **OPERATIONAL INFORMATION**

ISIN:	[•]
Common Code:	[•]
CFI:	[•][Not Applicable]
FISN:	[•][Not Applicable]
Names and addresses of additional Paying Agent(s) (if any):	[•][Not Applicable]

Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant addressees and identification number(s):	[Not Applicable/*give name(s) and number(s)* and [*addresses*]]
Delivery:	Delivery [against/free of] payment

9. **DISTRIBUTION**

(i)	Method of distribution:		[Syndicated/Non-syndicated]
	(A)	If syndicated, names of Managers:	[Not Applicable/[•]]
	(B)	Stabilisation Manager(s) (if any):	[Not Applicable/[•]]
(ii)	If non-syndicated, name of relevant Dealer:		[Not Applicable/[•]]
(iii)	Prohibition on Sales to EEA Retail Investors:		[Applicable]/[Not Applicable]

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Bank for its general corporate purposes or for any other purpose specified in the applicable Final Terms.

DESCRIPTION OF THE BANK

INTRODUCTION

The Bank was established to contribute to the sustainable growth of the UAE economy as the leading provider of developmental financial services in the UAE under the EDB Law. The Bank is wholly-owned by the UAE Government.

The Bank's mandate is to:

- provide affordable services in the field of home finance for UAE nationals, covering the construction, maintenance and development of residential housing: and
- offer financing for agricultural activities, governmental housing projects and the development of industrial and real estate projects.

The Bank operates through four business units:

- **Real Estate Finance**, which offers UAE nationals access to affordable housing loans which supports existing federal and local housing authorities by reducing their backlogs;
- **Business Finance**, which supports the continued growth of the UAE economy by helping UAE nationals establish and grow their SME businesses. This is intended to strengthen the entrepreneurial culture in the UAE, empower innovation and encourage the participation of the private sector in the economy;
- **Treasury and Investment**, which is responsible for managing the banks liquidity position and investing any excess funds to obtain the highest returns possible within the framework set out by the Management Risk and Credit Committee; and
- **Emirates Movable Collateral Registry**, a subsidiary that is 100 per cent. owned by the Bank and which operates the first fully digitised registry for security rights in movable property in the UAE. The registry aims to protect the rights of creditors when a debtor has defaulted on its obligations and to establish priority of security rights among creditors, based on the date and time of registration of their rights.

The Bank's strategy is to achieve diversification and excellence in all its activities, seeking to maintain sustainable growth in line with the UAE's efforts to diversify its economy and increase the contribution of focused sectors to reduce dependence on oil, as set out in the UAE Vision. One priority area included in the UAE Vision is the strategic development of knowledge-based economic sectors that are expected to make significant contributions to GDP growth and UAE national employment. The Bank intends to focus on seven such sectors: manufacturing; healthcare; information technology and communication; education; food and beverage; non-metal industries: and chemicals and to contribute to the UAE Vision by providing innovative financing solutions at a competitive cost that match the aspirations of UAE nationals.

The Bank has a long-term issuer default rating of AA- from Fitch. The key drivers cited by Fitch as underlying this rating include an extremely strong probability of state support, the fact that the Bank has a dedicated policy and development role in the UAE and is overseen by the MoF, which makes it strategically important to the UAE, and its sound capitalisation and liquidity. However, see also "*Risk factors—Factors that may affect the Bank's ability to fulfil its obligations under the Transaction Documents—A negative change in the Bank's credit ratings could limit its ability to raise funding and may increase its funding costs*".

The Bank's net interest income was AED 89 million in each of 2017 and 2016 and its profit for the year was AED 39 million in 2017 compared to AED 91 million in 2016. As at 31 December 2017, the Bank's total assets were AED 5.8 billion. As at the same date, its total capital ratio was 128.8 per cent., its tier 1 regulatory capital ratio was 127.8 per cent. and its total shareholders' equity equalled approximately one-half of its total assets. Since the Bank is not required to comply with any specific capital adequacy regulations, these capital ratios are not formal Basel III ratios. See "*Financial review – Capital adequacy*".

HISTORY

The EDB Law came into force on 18 September 2011. It incorporated the Bank and transferred to it all of the assets and liabilities of both Emirates Industrial Bank and Emirates Real Estate Bank, both of which were owned by the UAE Government. The Bank's paid up capital amounted to AED 2.2 billion as at 31 December 2017. Under the EDB Law, the MoF has an AED 5 billion capital commitment to the Bank. In the first nine months of 2018, the MoF paid-up a further AED 0.4 billion of share capital and the remaining amount is expected to be paid by 2022.

In terms of key assets and liabilities:

- Emirates Industrial Bank contributed AED 1.4 billion placements with other banks, AED 0.4 billion in loans and advances for industrial projects and AED 0.5 billion non-interest bearing government deposits; and

- Emirates Real Estate Bank contributed AED 1.3 billion placements with other banks (including SZHP deposit placements), AED 0.4 billion property investments (comprising land and the Al Maha residential tower in Abu Dhabi), AED 0.5 billion deposits from SZHP and AED 1 billion in deposits from government entities.

In addition, almost all of the Bank's non-performing loans are two legacy loans (to Amlak Finance and Global Investment House) inherited from the predecessor banks. As at 31 December 2015, these non-performing loans amounted to AED 154 million and the Bank's provisions in respect of those loans totalled AED 85 million. In addition, AED 19 million available for sale securities, relating to an Amlak contingent convertible instrument, was fully impaired.

The law that led to the formation of the Bank outlines a broad mandate that includes development, industrial, real estate, agricultural and UAE Government housing and construction projects, providing credit for personal housing and SME projects, supporting financial and economic consultancies and feasibility studies and receiving public and private subscriptions to increase capital. The Bank is permitted to borrow to finance only its development project lending, as all lending to individuals is restricted based on its mandate.

The Bank is not regulated by the Central Bank or subject to UAE regulations applicable to the banking industry, although its policy is to comply with those regulations.

In May 2013, the UAE Government appointed the Bank's first board of the directors (the **Board**) and in September 2013 its articles of association (the **Articles**) were established. In March 2015, a five year services agreement was signed between the Bank and the SZHP. In June 2015, the Bank formally opened its head office in Abu Dhabi and officially commenced operations through that office and a branch in Dubai, providing easy access to integrated banking services to all customers. This is in line with the Bank's vision and its goal of reaching a broad customers base throughout the UAE, especially in the Northern Emirates.

In June 2016, new Board members were appointed and H.E. Obaid Humaid Al Tayer became the Chairman of the Bank. In September 2016, a services agreement was signed with the MoF in relation to the Bank's role as host and operator of the Innovation Fund. In November 2016, the Board announced the launch of home finance loans for UAE nationals.

In December 2017, the Board adopted an SME finance strategy and allocated AED 450 million to SME finance in 2018. It also allocated AED 550 million to home finance loans in 2018. In line with Board approval in December 2017, in January 2018, the Bank announced the launch of financing products for SMEs.

In April 2018 and in line with Federal Law No. 20 of 2016 which regulates the pledging of moveable collateral as security for debt, the Bank launched the Emirates Movable Collateral Registry (**EMCR**), a pioneering registry system aimed at helping secure creditors' rights over movable collateral in the UAE. The EMCR is run by a wholly-owned subsidiary of the Bank. The launch of the EMCR aims to achieve three main objectives:

- providing companies, and particularly SMEs, and projects with additional financing options as the EMCR is expected to increase access to finance and reduce interest rates on loans;

- providing an institutional framework and the appropriate legislation for this type of secured lending; and

- contributing in raising the UAE's competitiveness and enhancing its business environment, for example by improving the country's ranking in the 'Doing Business' report issued by the World Bank.

In May 2018, the Board approved a plan to launch a direct financing programme for start up and emerging companies, with an initial AED 50 million fund for 2018. It also approved an AED 100 million fund for a credit guarantee scheme to help finance SMEs.

As an entity wholly-owned by the UAE Government, the Bank is not required to be registered with any UAE registry and does not have a registration number. Its registered office is at P.O. Box 51515, Abu Dhabi and its main telephone number is +971 269 0999.

STRATEGY

The Bank's strategic objectives are guided by the economic and social development requirements outlined in the UAE Vision and its mandate as set out in the EDB Law.

The Bank's strategy is to achieve diversification and excellence in all its activities, seeking to maintain sustainable growth in line with the UAE's efforts to diversify its economy and increase the contribution of focused sectors to reduce dependence on oil, as set out in the UAE Vision. One priority area included in the UAE Vision is the strategic development of knowledge-based economic sectors that are expected to make significant contributions to GDP growth and UAE national employment. The Bank intends to focus on seven such sectors: manufacturing; healthcare; information technology and communication; education; food and beverage; non-metal industries: and chemicals and to contribute to the UAE Vision by providing innovative financing solutions at a competitive cost that match the aspirations of UAE nationals.

In December 2017, the Bank adopted a five year growth strategy which broadly involves laying the foundations for growth during 2018, achieving significant growth in 2019 and 2020 and consolidating that growth in 2021 and 2022. In order to lay the foundations for growth, during 2018, the Bank significantly enhanced its governance, infrastructure, operations and IT.

Within the governance arena, projects included reviewing and updating policies and procedures, enhancing the internal audit and compliance functions, establishing a business continuity plan and reviewing the employee value proposition, all of which aimed at enhancing business, process and people efficiency.

In terms of infrastructure, the Bank has already established the EMCR and is also operating a credit guarantee scheme. It is also developing non-financial services for SMEs designed to provide comprehensive business advice and information to start, run and grow businesses. The Bank has also separated its treasury and investments function from its finance department and appointed a new head of treasury. In order to support the Bank's strategy, the funding structure is being optimised for long-term liquidity. Additionally, for further portfolio diversification, the Bank intends to continue investing in fixed income products whilst maintaining a high quality of assets with strong sustainable returns. The Bank is also working on optimising its equities portfolio so as to rely on dividends rather than trading returns.

In the operations and IT area, the Bank is integrated with the Al Etihad Credit Bureau and is able to upload customers' credit details as well as to download their credit scores. It is also automating its business processes, enhancing its management information and document archiving systems and developing a digital transformation programme designed to provide a best in class customer experience across the Bank's various channels.

Each of these initiatives was formalised in a charter and prioritised based on business need and financial and operational impact. Each initiative has its own key performance indicators to enable close monitoring.

The Bank has also developed an SME finance strategy that classifies its SME customers as either small (with a turnover from and including AED 1 to but excluding AED 5 million) or medium (with a turnover from and including AED 5 to but excluding AED 30 million) and large (with a turnover of AED 30 million or more). The Bank then differentiates these customers in terms of selling and cross-selling, approval and credit processing, lending limits and pricing, retention and products, as discussed under "*—Business—Business finance business*" below.

CREDIT STRENGTHS

The Bank believes that its key credit strengths are:

- its 100 per cent. UAE Government ownership and the fact that its owner is committed to increasing the Bank's paid up capital to AED 5 billion;
- its strategic importance, reflected in the fact that it was established by Royal Decree and its primary objectives are supporting UAE nationals in obtaining housing loans and the growth of SME industries;
- its strong capital ratios (see "*Financial review—Capital adequacy*") and growing balance sheet;
- its AA- long-term issuer default rating by Fitch; and
- its board of directors, which is chaired by the UAE's Minister of Finance and whose vice-chairman is Under Secretary of the MoF and the Deputy Governor of the Central Bank.

SHAREHOLDER

The Bank is wholly-owned by the UAE Government which holds all of the Bank's AED 5 billion issued share capital on a partly paid-up basis. The EDB Law provides that the Bank's directors must be appointed by a resolution of the Council of Ministers.

To date, all of the Bank's funding has been provided by the UAE Government through the MoF or other governmental institutions, including the SZHP and the Innovation Fund. The Bank plays an integral role in the UAE Vision, including through providing affordable financing to UAE nationals to enable them to purchase or build a home, through financing and enabling finance for SMEs which are majority-owned by UAE nationals and through longer-term subsidised funding to entities engaged in the core economic sectors targeted by the UAE Vision.

The table below shows the past and committed increases in the Bank's capital.

Year	Amount (*AED million*)
2011	1,696
2014	500
2018	850

In addition, the Board and the UAE Cabinet have approved the capitalisation of reserves in an amount of AED 512 million.

BUSINESS

The Bank operates through four business units, each of which is described below.

Real estate finance business unit

The Bank offers affordable financial solutions to UAE nationals that facilitate their purchase, construction or expansion of a home.

At the time of the Bank's operational launch in 2015, a significant number of UAE national families, estimated by management at around 60,000, did not own their own home. More than half of these families had sought support from housing programmes, but due to an imbalance between supply of funding and demand in the UAE there was a significant backlog of applicants and waiting times extended up to several years.

The Bank aims to alleviate the pressure on housing authorities by providing home finance solutions at affordable rates. The Bank provides a variety of customised finance solutions for UAE nationals, including loans complementing the offering of federal and local housing authorities, as well as direct financing products such as mortgage loans or loans for home construction. The Bank typically offers more generous terms compared to commercial banks and is not limited by Central Bank regulations which restrict commercial bank home loan lending to a maximum defined loan to value percentage as shown in the table below.

	Bank	Commercial banks
Maximum LTV for completed home loans	100%	80%
Maximum LTV for construction home loans	100%	50%

In addition, the Bank permits a debt burden ratio (calculated as the ratio of the applicant's total debt to its total assets) of up to 60 per cent. compared to a limit of 50 per cent. typically accepted by commercial banks and has a minimum salary requirement of AED 10,000 compared to AED 15,000 typically required by commercial banks.

The Bank's home finance loans have amounts of up to AED 5 million for completed home loans and up to AED 3 million for construction home loans and terms of up to 25 years for both loan types. They have financing rates that are lower than those offered by other banks in the UAE and are typically secured over the property being financed or by a second degree mortgage in the case of home loans financed by the UAE Government's home loan scheme.

The Bank's process for granting a home finance loan typically involves two steps: pre-approval and final approval. During the pre-approval phase, the Bank analyses the applicant's financial position in terms of eligibility and affordability against the Bank's approved credit parameters. The final approval phase involves sourcing information on the applicant's employment, current salary/income and level of indebtedness. It also involves obtaining Al Etihad Credit Bureau information that shows the applicant's credit score, credit exposure and credit history as reported by all UAE lenders. Similarly, a Central Bank Risk Bureau report is generated which shows the current exposure and classification of the obligor.

As at 31 December 2017, completed homes loans made up 57 per cent. of the Bank's real estate finance portfolio and construction home loans accounted for the 43 per cent. balance of the portfolio. The corresponding numbers as at 31 December 2016 were 33 per cent. and 67 per cent., respectively, and as at 31 December 2015 were 32 per cent. and 68 per cent., respectively.

The table below shows certain information relating to the home finance loans advanced by the Bank in each of 2015, 2016 and 2017.

	2017	**2016**	**2015**
Number of direct loans advanced	638	333	97
Principal amount advanced (*AED thousands*)	545,389	154,362	31,173
Fees charged (*AED thousands*)	302	258	60
Interest income received (*AED thousands*)	9,507	2,080	110
Percentage of total loan book (*per cent.*)	50	17	4

The default rate in the real estate finance business' portfolio was 0.3 per cent. as at 31 December 2017, compared to 0.2 per cent. as at 31 December 2016 and zero per cent. as at 31 December 2015.

The table below shows the real estate finance business' loan portfolio by Emirate as at 30 September 2018.

	AED million	**Percentage of portfolio**
Abu Dhabi	344.5	39.0
Dubai	117.5	13.3
Ras Al Khaimah	107.9	12.2
Sharjah	125.0	14.2
Fujairah	78.9	9.0
Ajman	97.3	11.0
Um Al Qwain	11.8	1.3
Total	**882.9**	**100.0**

The Bank's co-operation with the SZHP is an important element of its home finance business. Under the agreement between the Bank and the SZHP, the Bank:

- administers loans made by the SZHP to its customers – these loans are agreed between the SZHP and the customer and the Bank's role is to disburse the funds which it has received from the MoF on behalf of the SZHP and subsequently administer the loans. These loans do not carry any risk for the Bank and so are not included in its balance sheet; and

- provides finance to customers of the SZHP in the form of both direct funding and top-up loans to cover increased home construction costs. As these loans are provided using the Bank's own funds, they are included in its balance sheet.

In 2016, the Bank opened 1,808 SZHP files, and advanced AED 1,102 million in financing to borrowers, and collected payments totalling AED 415 million from borrowers, on behalf of the SZHP. The Bank also disbursed AED 1,564 million to developers and construction businesses.

In 2017, the Bank opened 2,621 SZHP files, and advanced AED 1,694 million in financing to borrowers, and collected payments totalling AED 505 million from borrowers, on behalf of the SZHP. The Bank also disbursed AED 1,924 million to developers and construction businesses.

Business finance business unit

In 2018, the Bank launched its offer of affordable finance to SMEs which are majority owned by UAE nationals in the form of:

- asset-backed financing;

- purchase financing (pre-sales financing);

- receivables financing (post-sales financing); and

- business expansion loan and project financing.

In collaboration with the UAE Council of Small and Medium-Sized Enterprises and Projects (the **SME Council**), overseen by the UAE Ministry of Economy, the Bank seeks to collaborate with all federal and local authorities in encouraging UAE nationals to start their own businesses. The Bank also seeks to establish strategic partnerships with relevant authorities to provide indirect funding to support SMEs. By enabling SMEs to access funding, the Bank allows them to grow their businesses and drive economic development to achieve the transition to a knowledge-based economy, through innovation as well as research and development. The Bank also contributes to the UAE Vision which, among other aims, seeks to increase the contribution of the SME sector to non-oil GDP to 70 per cent. by 2021.

The Bank classifies SMEs by the amount of financing sought. Small enterprises are those with loans from and including AED 1 million up to but excluding AED 5 million while medium enterprises are those with loans from and including AED 5 million up to but excluding AED 30 million.

Small enterprise financing is typically granted in the form of secured loans of up to AED 5 million and unsecured loans of up to AED 2 million (based on the credit strength of the borrower) with terms of up to 10 years. They have financing rates that aim to be competitive with those offered by other banks and, where secured, the collateral typically comprises a pledge on tangible assets (such as real estate, vehicles, inventory) and assignments of receivables. In all cases, the Bank seeks personal or corporate guarantees. The financing is available for business expansion or to assist in day to day operating activities.

Medium enterprise financing may take the form of:

- working capital finance aimed at funding up to 80 per cent. of the value of future purchases through a revolving loan with a flexible repayment option;

- asset-backed financing aimed at funding up to 80 per cent. of the cost of new equipment, machinery, vehicles and other commercial assets;

- secured and unsecured business term loans to meet short- to medium-term financing needs;

- invoice discounting that allows customers to convert their credit receivables to immediate cash; and

- trade finance facilities, including the financing of supplier payments through trust receipts and, in the future, the offering of letters of credit and guarantee on an outsourced basis.

The Bank's medium enterprise financing has rates that aim to be competitive with those offered by other banks and flexible tenors. It may be secured or unsecured depending on the finance type and the credit strength of the borrower. Where secured, the collateral typically comprises tangible securities such as property, receivables, vehicles and machinery (for working capital finance, business term loans and trade finance facilities) and generally the assets being financed (for asset-backed financing).

The Bank's process for granting SME loans typically involves analysing the financial statements of the customer along with the main obligor's personal creditworthiness and any co-obligor's net worth. Once the SME's financial needs have been assessed, the terms and conditions and the pricing of the loan are decided. Part of the credit analysis includes using the Bank's risk rating system and obtaining Al Etihad Credit Bureau reports for the SME and its owner or owners. Similarly, Central Bank Risk Bureau reports are generated which show the current credit exposure and credit classification of the SME and its owners. Loans are restricted to SMEs with at least 51 per cent. UAE ownership and which operate in the Bank's focus sectors or selective other sectors considered to be low risk.

The table below shows certain information relating to the SME loans advanced by the Bank in each of 2015, 2016 and 2017. In 2015 and 2016, the portfolio comprised legacy loans only.

	2017	**2016**	**2015**
Principal amount advanced (*AED thousands*)	279,836	317,749	328,431
Fees charged (*AED thousands*)	87	0	0
Interest income received (*AED thousands*)	8,875	9,964	14,323
Proportion of total loan book (*per cent.*)	33	56	65

The Bank is working towards offering non-financial products and services to its SME customers, including information and know how through an interactive portal; training and networking opportunities through webinars and SME or sector specific events; and consulting services through dedicated industry advisors and SME mentors and consultants.

In May 2018, the Board approved an AED 100 million fund to finance SMEs through a credit guarantee scheme. Under the scheme, the Bank will guarantee up to 85 per cent. of start-up loans of up to AED 2 million and up to 70 per cent. of SME loans of between AED 2 million and AED 5 million provided to start-up entities by commercial banks. At the same meeting, the Board also approved a plan to launch a direct financing programme of up to AED 50 million in 2018 for start-up entities and emerging companies which are majority-owned by UAE nationals. Under the programme, the Bank intends to advance loans of up to and including AED 2 million at a competitive interest rate and with a flexible repayment option.

One of the Bank's strategic partners in the SME field is the Innovation Fund, which aims at building a UAE-centric innovation ecosystem by attracting foreign entrepreneurs and innovative companies. Through this programme, the Bank is able to provide direct funding (financed by the MoF) and credit guarantees of up to 100 per cent. of the amount advanced by partner banks to qualifying innovation projects. As at 30 September 2018, no amounts had yet been advanced by the Bank under this programme and three guarantees, totalling AED 14.7 million, had been provided by it.

The UAE Vision was launched by the Vice-President and Prime Minister of the UAE in 2010. It aims to develop the UAE into one of the world's most successful economies. One priority area included in the UAE Vision is the strategic development of knowledge-based economic sectors that are expected to make significant contributions to GDP growth and UAE national employment. The Bank intends to focus on seven such sectors: manufacturing; healthcare; information technology and communication; education; food and beverage; non-metal industries: and chemicals.

A key issue in the UAE is a lack of long-term funding, reflecting the prevalence of short- to medium-term lending offered by most commercial banks operating in the country. The Bank aims to address the longer-term funding needs of entities operating in its future focus sectors and also aims to offer softer interest rates compared to typical lending facilities. The Bank also intends to maintain strong relationships with other banks and financial institutions in the UAE, with a view to closing the funding gap for its target sectors through a collaborative effort.

Due to the distinctly different dynamics and characteristics of each of the Bank's future focus sectors, overcoming existing funding challenges requires customised approaches. Sector-inherent lack of collateral is one of the main obstacles for businesses seeking funding. The Bank intends to become the first bank in the UAE to offer tailored propositions for the focus sectors defined in the UAE Vision that are fully aligned with the characteristics and dynamics of each sector.

The Bank aims to fully leverage opportunities with its SME clients that are currently suppliers to, or form part of, the value chain distribution process of its large corporate client base.

Treasury and investment business unit

The treasury and investments department's role is to manage the Bank's liquidity and cash flow as well as its foreign exchange positions, its securities investments and its other assets and liabilities. The department also maintains a trading desk that conducts proprietary trading activity on behalf of the Bank. In addition, the department acts as the custodian of the Bank's cash and other liquid assets. The treasury and investments department managed 63 per cent. of the Bank's total assets as at 30 September 2018 and generated 63 per cent. of the Bank's total gross operating income for the nine-month period ended 30 September 2018. The treasury and investments department seeks to achieve portfolio diversification by maintaining a high quality assets portfolio focused on achieving strong and sustainable returns, an instrument must be issued from the UAE and have a minimum rating of BBB+ to be considered for investment. Through treasury liabilities products, the Bank also aims to obtain long-term, risk-free, stable deposits cheaply to fund its assets and develop sustainable long-term relationships.

In order to support the Bank's strategy, its funding structure is being optimised for long-term liquidity.

In order to grow the size of the Bank's balance sheet and its investment book, the Bank intends to focus on:

- effective balance sheet management;
- arbitrage;
- accessing funds that it can utilise in investment activities, including continued investment in fixed income products whilst maintaining a high quality of assets with strong sustainable returns and optimising its equities portfolio so as to rely on dividends rather than trading returns; and
- effective risk management policies.

EMCR business unit

In 2016, Federal Law No. 20 of 2016 concerning the Mortgage of Moveable Assets to Secure Debt came into force. The Bank established EMCR in 2017 as a wholly-owned subsidiary. It was officially launched on 2 April 2018 as the first fully digitised registry for security rights in movable property in the UAE.

In connection with the establishment of EMCR, the Bank partnered with:

- Paradigm Applications, which supported the development of the software application for the registry and provides support following the commencement of EMCR's operations; and

- International Finance Company ("**IFC**", a World Bank group company), which advised the Bank regarding the implementation of the registry system in line with the requirements of local legislation. The IFC team is also providing support to financial institutions and other users of the registry.

EMCR's two main objectives are to give notice of the creditor's interest in the secured assets and to establish the creditor's priority by time of registration of its security interest. EMCR's target customer base includes banks, non-bank financial institutions and leasing companies as well as individuals and businesses who provide credit secured with movables and creditors undertaking fiduciary title transfers and consignment arrangements. EMCR's principal source of revenue consists of the fees charged to clients for registering notices.

As at 30 September 2018, EMCR had 656 individual users across 123 local and international banks and institutions and a total of 25,678 security interest notices had been registered.

EMCR does not register security interests in movables for which existing laws already require registration or for which a special register already exists (for example pledges over shares registered with the economic departments in each Emirate or pledges over vehicles registered with the applicable traffic departments in each Emirate).

COMPETITION

As the sole development bank in the UAE, the Bank does not believe that it is exposed to significant competition.

INFORMATION TECHNOLOGY

The IT department's objective is to ensure that the Bank provides consistent and efficient service to its customers while reducing the Bank's operating costs and risks.

The Bank's customer-centric core banking system is Temenos T24 which the Bank uses to provide client-focused processing and services in the areas of home and business finance and treasury and investments. The Bank's core banking system is connected with the Central Bank's system to enable fund transfers, direct debits and accessibility of Central Bank credit reports.

The Bank uses Oracle e-Business Suite (including financial and human resources management system applications) as internal enterprise resource planning (ERP) systems for employee services, payroll, procurement, vendor management, fixed assets and financial reporting.

The Bank has an integrated and secure network infrastructure based on latest technology in network and security, with design standards to ensure resilience, customer data confidentiality, integrity and authenticity.

The Bank also has a digitisation programme to maintain and ensure state-of-the-art technology infrastructure within the Bank, as well as to ensure that its business and front-end channels can be further enhanced digitally so as to ensure an enhanced customer experience and greater levels of convenience for all of its customers.

COMPLIANCE

Compliance risk is the exposure to penalties, fines and other losses that an organisation faces when it fails to act in accordance with industry laws and regulations, internal policies or prescribed best practices.

The Bank addresses compliance risk through anti-money laundering ("**AML**"), anti-terrorist financing ("**ATF**") and know your customer ("**KYC**") procedures, which include conducting customer due diligence, transaction monitoring, transaction and customer screening, the reporting of suspicious activity, record keeping and staff training.

Effective AML, ATF and KYC procedures form a fundamental part of the Bank's internal control regime. The Bank's AML and ATF policies and procedures have been implemented in accordance with local legislation and regulatory requirements as well as international sanctions requirements. Guidelines have also been designed to provide adequate support to the business in minimising the risk of money laundering and terrorist financing, as well as to comply with applicable legislation and regulations.

INTERNAL AUDIT

The Bank's internal audit function is an independent function reporting directly to the Board Audit, Risk and Compliance Committee (the "**BARCC**"). The Bank's internal audit framework includes:

- audit manuals;
- various internal policies and instructions published by the Bank;
- external laws and regulations; and
- standards and code of ethics set by The Institute of Internal Auditors (the IIA).

The overall objective of the Bank's internal audit function is to provide independent and objective assurance and consulting services designed to add value and improve the Bank's operations and management of risk. In order to achieve its overall strategic objectives, the Bank's internal audit function adopts a risk-based audit methodology so that all risks are assessed across all business and operational units of the Bank and across all underlying processes and activities.

The Bank's internal audit function comprises four experienced staff headed by a Chief Internal Audit Officer.

FINANCIAL REVIEW

The following discussion and analysis should be read in conjunction with the information set out in "Presentation of financial and other information", "Selected financial information" and the Financial Statements.

The discussion of the Bank's financial condition and results of operations is based upon the Financial Statements which have been prepared in accordance with IFRS. This discussion contains forward-looking statements that involve risks and uncertainties. The Bank's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Base Prospectus, particularly under the headings "Cautionary statement regarding forward-looking statements" and "Risk factors".

See "Presentation of financial and other information" for a discussion of the source of the numbers presented in this section and certain other relevant information.

OVERVIEW

The Bank was established to contribute to the sustainable growth of the UAE economy as the leading provider of developmental financial services in the UAE under a decree issued by the President, Sheikh Khalifa bin Zayed Al Nahyan, by Federal Law No. 7 of 2011 (the "**EDB Law**"). The Bank is wholly-owned by the UAE Government.

The Bank's mandate is to:

- provide affordable services in the field of home finance for UAE nationals, covering the construction, maintenance and development of residential housing: and

- offer financing for agricultural activities, governmental housing projects and the development of industrial and real estate projects.

The Bank operates through four business units:

- **Real Estate Finance**, which offers UAE nationals access to affordable housing loans which supports existing federal and local housing authorities by reducing their backlogs;

- **Business Finance**, which supports the continued growth of the UAE economy by helping UAE nationals establish and grow their small to medium-sized ("**SME**") businesses. This is intended to strengthen the entrepreneurial culture in the UAE, empower innovation and encourage the participation of the private sector in the economy;

- **Treasury and Investment**, which is responsible for managing the banks liquidity position and investing any excess funds to obtain the highest returns possible within the framework set out by the Management Risk and Credit Committee; and

- **Emirates Movable Collateral Registry**, a subsidiary that is 100 per cent. owned by the Bank and which operates the first fully digitised registry for security rights in movable property in the UAE. The registry aims to protect the rights of creditors when a debtor has defaulted on its obligations and to establish priority of security rights among creditors, based on the date and time of registration of their rights.

The Bank's strategy is to achieve diversification and excellence in all its activities, seeking to maintain sustainable growth in line with the UAE's efforts to diversify its economy and increase the contribution of focused sectors to reduce dependence on oil, as set out in the UAE Vision, which is a federal initiative launched by H.H. Mohammed bin Rashid Al Maktoum, the Vice-President and Prime Minister of the UAE, in 2010. The UAE Vision aims to develop the UAE into one of the world's most successful economies. One priority area included in the UAE Vision is the strategic development of knowledge-based economic sectors that are expected to make significant contributions to GDP growth and UAE national employment. The Bank intends to focus on seven such sectors: manufacturing; healthcare; information technology and communication; education; food and beverage; non-metal industries: and chemicals and to contribute to the UAE Vision by providing innovative financing solutions at a competitive cost that match the aspirations of UAE nationals.

The Bank's net interest income was AED 89 million in each of 2017 and 2016 and its profit for the year was AED 39 million in 2017 compared to AED 91 million in 2016. As at 31 December 2017, the Bank's total assets were AED 5.8 billion. As at the same date, its total capital ratio was 128.8 per cent., its tier 1 regulatory capital ratio was 127.8 per cent. and its total shareholders' equity equalled approximately one-half of its total assets. See "*Financial review – Capital adequacy*".

PRINCIPAL FACTORS AFFECTING RESULTS OF OPERATIONS

The following is a discussion of the principal factors that have affected, or are expected to affect, the Bank's results of operations.

Economic conditions

The Bank's income and results of operations are affected by economic and market conditions in the UAE. Based on IMF data in the IMF's October 2018 World Economic Outlook, the UAE's real GDP grew by 5.1 per cent. in 2015, 3.0 per cent. in 2016 and 0.8 per cent. in 2017 and was predicted to grow by 2.9 per cent. in 2018 whilst its nominal GDP fell by 11.2 per cent. in 2015 and by 0.3 per cent. in 2016 and grew by 7.2 per cent. in 2017. The UAE's nominal GDP was predicted by the IMF to grow by 13.1 per cent. in 2018. According to the IMF's press release in relation to its 2018 Article IV consultation with the UAE which concluded in September 2018, tightening financial conditions and increased global and regional uncertainty call for continued vigilance in monitoring financial sector risks in the UAE, including those from a downturn in real estate and concentrated loan portfolios. Ensuring consistency of the draft central bank and banking laws with international best practices and approving them swiftly would buttress the UAE's prudential framework. Continued upgrading of bank regulations and strengthening bank supervision are essential to maintain the resilience of the UAE banking system.

In its 2018 Article IV consultation, the IMF noted that the UAE economy has been adapting well to a prolonged decline in oil prices since 2014 and that a gradual recovery in non-oil activity is under way. With oil production and government spending set to rise, the IMF is projecting economic growth in 2018 and 2019, inflation of around 3.5 per cent. in 2018 due to the introduction of value added tax which should ease in 2019, a stable fiscal deficit in 2018 and a fiscal surplus in 2019 and a significant current account surplus in 2018.

Factors affecting net interest income

The Bank's net interest income is the major contributor to its total operating income, comprising 62.6 per cent. of total operating income in 2017 and 60.5 per cent. in 2016. The Bank's interest income principally comprises the interest earned on its interbank lending and interbank deposits placed and, to a significantly lesser extent, the interest earned on its loans and advances to customers. The Bank also includes in interest income:

(i) interest earned on its fixed income securities; and

(ii) interest earned on its loans to governmental establishments and placements with the Central Bank.

The Bank's interest expense is the interest that it pays on funds advanced to it by governmental authorities and establishments, including in particular the SZHP. The Bank does not accept deposits from the public.

The Bank's net interest income was AED 89 million in each of 2017 and 2016 and AED 65 million in 2015.

The Bank's interest income fell by AED 3.6 million, or 2.8 per cent., in 2017 to AED 127 million from AED 130 million in 2016. This fall principally reflected an AED 11 million, or 10.2 per cent., fall in interest income from interbank placements in 2017 to AED 98 million from AED 109 million in 2016 which was offset by an AED 7 million, or 62.5 per cent., increase in interest income from loans and advances to customers in 2017 to AED 18 million from AED 11 million in 2016.

The Bank's interest income increased by AED 34 million, or 35.3 per cent., in 2016 to AED 130 million from AED 96 million in 2015. This increase principally reflected an AED 37 million, or 50.1 per cent., increase in interest income from interbank placements in 2016 to AED 109 million from AED 73 million in 2015 and an AED 6 million increase in interest income from fixed income securities in 2016 to AED 7 million from AED 1 million in 2015. These increases were offset by an AED 8 million, or 40.7 per cent., fall in interest income from loans and advances to customers in 2016 to AED 11 million from AED 19 million in 2015.

The Bank was incorporated as a shareholding company fully owned by the UAE government on 18 September 2011, by merging the operations and assets and liabilities of Emirates Industrial Bank and Emirates Real Estate Bank. In June 2015, the Bank formally opened its head office in Abu Dhabi and officially commenced operations through that office and a branch in Dubai. Reflecting its relatively short period of operation, the majority of the Bank's funds remain employed in inter-bank placements, although the Bank is increasing its fixed income portfolio with a view to improving the returns generated from its excess liquidity.

The Bank's interest income principally varies by reference to the volume of funds placed or advanced by it and the interest rates which it charges on those funds.

The Bank's interest expense fell by AED 4 million, or 10.0 per cent., in 2017 to AED 37 million from AED 41 million in 2016. This fall principally reflected the fact that it paid no interest on deposits from governmental authorities and establishments in 2017 compared to AED 6 million paid in 2016 which was offset by an AED 2 million, or 6.6 per cent., increase in interest expenses on deposits from the SZHP in 2017 to AED 37 million from AED 35 million in 2016.

The Bank's interest expense increased by AED 10 million, or 32.0 per cent., in 2016 to AED 41 million from AED 31 million in 2015. This increase principally reflected an AED 13 million, or 58.1 per cent., increase in interest expenses on deposits from the SZHP in 2016 to AED 35 million from AED 22 million in 2015 which was offset by an AED 3 million, or 33.1 per cent., fall in interest expense on deposits from governmental authorities and establishments in 2016 to AED 6 million from AED 10 million in 2015.

The Bank's interest expense principally varies by reference to the volume of funds deposited with it and the interest rates paid on those funds.

See further "*Results of operations—Net interest income*" below for a discussion of the reasons underlying these trends in net interest income.

Impairment charges

The Bank's NPL level at 31 December 2017 was significantly above the average NPL levels applicable to banks operating in the UAE more generally, principally due to its legacy portfolio from the two merged banks. Both banks had stopped lending activities for a significant period before the merger and as a result performing loan repayments with no new loans being granted resulted in an increase in the proportion of NPLs in the combined portfolio.

In 2017, the Bank's impairment charge increased by AED 5 million, or 31.4 per cent., from AED 17 million in 2016 to AED 22 million. This reflected an increase in specific provisions.

In 2016, the Bank's impairment charge increased by AED 17 million from no impairment charge in 2015. This principally reflected an increase in specific provisions in relation to a legacy position inherited by the Bank.

Almost all of the Bank's non-performing loans are two legacy loans (to Amlak Finance and Global Investment House) inherited from its predecessor banks. As at 31 December 2017, these non-performing loans amounted to AED 148 million, or 17 per cent. of its gross loans. Both exposures were successfully restructured and 23 per cent. of the original exposure has been recovered, contributing to the Bank's impaired loans being reduced to 16 per cent. of gross loans at 31 December 2017. This level is expected to fall further as the Bank continues to grow its loan book.

Gains or losses on the revaluation of investment property and financial investments at fair value through profit or loss

The Bank's statement of profit or loss has been impacted in each of 2017, 2016 and 2015 by gains or losses arising on the revaluation of investment property and financial investments at FVTPL. Together, these amounted to a loss of AED 18 million in 2017, a gain of AED 20 million in 2016 and a gain of AED 5.6 million in 2015.

In 2017, the Bank recorded a gain on the revaluation of financial investments at FVTPL of AED 1 million, compared to gains of AED 27 million in 2016 and AED 12 million in 2015. The Bank's financial investments at FVTPL are all investments in unquoted companies which are fair valued using level 3 inputs, principally the market comparison technique which is a valuation model based on market multiples derived from quoted prices of companies comparable to the investee and the expected EBITDA of the investee. The estimate is adjusted for the effect of non-marketability of the equity securities. The gains in each period principally reflected positive changes in the annual revenue growth rate and EBITDA margins of unquoted companies.

In 2017, the Bank recorded a loss on the revaluation of investment property of AED 19 million, compared to losses of AED 6 million in 2016 and AED 11 million in 2015. The Bank's investment properties are fair valued at the end of each year by an industry specialist in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards using in 2017, the comparable method of valuation, the investment valuation method and the residual valuation method and, in 2016, the discounted cash flows method. The losses in each period principally reflected adverse real estate market conditions across the UAE.

Impact of IFRS 9

The Bank has adopted IFRS 9 (Financial Instruments) from 1 January 2018. Among other matters, IFRS 9 introduces a new single model for the measurement of impairment losses on all financial assets. The IFRS 9 expected credit loss ("**ECL**") model replaces the current "incurred loss" model of IAS 39. The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward-looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL. This model is explained in more detail in note 3.15.2 to the 2017 Financial Statements and note 19(b)(iv) to the Interim Financial Statements.

The Bank has adjusted its opening retained earnings as at 1 January 2018 by AED 1.5 million with a corresponding impact in the revaluation reserve against fair value through other comprehensive income ("**FVOCI**") equity investments and FVTPL debt instruments to reflect its adoption of IFRS 9. In addition, management also decided to maintain impairment provisions in respect of the higher of ECL determined in accordance with IFRS 9 and the provisions calculated in accordance with Central Bank guidelines.

IFRS 9 also introduces a new classification and measurement requirements for financial assets and liabilities from 1 January 2018. In particular, since that date the Bank:

- classifies its debt instruments previously classified as available for sale under IAS 39 as FVTPL;

- classifies its equity instruments previously classified as available for sale under IAS 39 as FVOCI;
- classifies its equity instruments previously classified as FVTPL under IAS 39 as FVOCI; and
- continues to measure its loans and amounts due from banks which were previously measured at amortised cost under IAS 39 at amortised cost under IFRS 9.

RECENT DEVELOPMENTS

On 13 November 2018, the Bank published its Interim Financial Statements.

The Bank's net interest income and income from Islamic financing in the nine months ended 30 September 2018 increased by AED 6.0 million, or 8.6 per cent., to AED 76 million from AED 70 million in the corresponding period of 2017. This reflected increases of AED 2.8 million, or 4.1 per cent., in net interest income and AED 3.2 million, or more than double, in profit from Islamic financing. These changes were principally due to the Bank deploying more funds in advancing loans and Islamic financing and consequently reducing its interbank placements.

The Bank's other operating income in the nine months ended 30 September 2018 fell by AED 5.2 million, or 12.0 per cent., to AED 39 million from AED 44 million in the corresponding period of 2017. This was principally due to lower investment income, which reflected both lower dividend income and losses realised on the sale of financial investments at fair value in the 2018 period compared to gains realised in the 2017 period.

The Bank's expenses in the nine months ended 30 September 2018 increased by AED 2.0 million, or 3.4 per cent., to AED 63 million from AED 61 million in the corresponding period of 2017. Increases in salaries and operating and administrative expenses as the Bank expanded its operations were offset by a lower impairment charge and reduced depreciation as a result of an adjustment in the expected useful lives of the Bank's assets during 2018. The Bank's impairment charge in the nine months ended 30 September 2018 was AED 5.2 million compared to AED 17.2 million in the corresponding period of 2017. The significant reduction in the 2018 period principally reflected a decrease in NPLs.

The Bank's loss on the revaluation of investment property and financial investments was AED 21.7 million in the nine months ended 30 September 2018, AED 2.3 million, or 12.0 per cent., higher than the AED 19.4 million recorded in the corresponding period of 2017.

Reflecting the above factors, the Bank's profit for the nine months ended 30 September 2018 was AED 29.4 million, AED 3.7 million, or 11.1 per cent., lower than the AED 33.1 million recorded in the nine months ended 30 September 2017.

The Bank's home finance gross loan exposures reached AED 883 million at 30 September 2018 from AED 425 million at 31 December 2017, an increase of AED 458 million or 108 per cent. over the nine-month period. During the same period, AED 183 million in new loans were disbursed (comprising loans to SMEs and a loan to the Emirates Real Estate Corporation, a UAE Government-related entity).

SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements have been prepared in accordance with IFRS. For a discussion of the significant accounting policies applied by the Bank generally, see note 3 to the 2017 Financial Statements.

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

In preparing the Bank's financial statements, management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the Bank's assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the financial statements as well as the reported amounts of its revenues and expenses during the periods presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the financial statements. For a discussion of the most significant accounting estimates, judgments and assumptions made in the preparation of the Bank's financial statements, see note 5 to the 2017 Financial Statements, which identifies four key factors.

RESULTS OF OPERATIONS

Total operating income

The Bank's total operating income was AED 143 million in 2017 compared to AED 147 million in 2016 and AED 115 million in 2015, a fall of AED 4 million, or 2.8 per cent., in 2017 compared to 2016 and an increase of AED 32 million, or 27.4 per cent., in 2016 compared to 2015.

The table below analyses the Bank's total operating income for each of 2017 and 2016.

	2017	**2016**	**2015**
		(*AED thousands*)	
Income			
Interest income	126,736	130,333	96,362
Interest expense	(37,309)	(41,443)	(31,404)
Net interest income	**89,427**	**88,890**	**64,958**
Profit from murabaha, ijarah and estisnaa	1,812	2,015	1,817
Net interest income and income from Islamic financing	**91,239**	**90,905**	**66,775**
Investment income	20,467	20,354(1)	15,476(1)
Fees and commission income	10,000	9,000	8,000
Other income	21,194	26,776(1)	25,141(1)
Total operating income	**142,900**	**147,035**(1)	**115,391**(1)

Note:

(1) Reclassified in 2017 to conform to the presentation in the 2017 Financial Statements. See "*Presentation of financial and other information—Presentation of financial information—Comparability of information*".

Net interest income

The Bank's net interest income is the difference between the interest income earned by it and the interest expense paid by it.

Interest income

The Bank's interest income principally comprises the interest earned on its interbank lending and interbank deposits placed and, to a significantly lesser extent, the interest earned on its loans and advances to customers. The Bank also includes in interest income:

(i) interest earned on its fixed income securities; and

(ii) interest earned on its loans to governmental establishments and placements with the Central Bank.

The Bank's net interest income was AED 89 million in each of 2017 and 2016 and AED 65 million in 2015.

The table below shows the Bank's interest income in each of 2017, 2016 and 2015.

	2017	**2016**	**2015**
		(*AED thousands*)	
Bank placements and deposit accounts	98,266	109,378	72,874
Loans..	17,854	10,985	18,537
Central Bank of the UAE	144	26	12
Loans to governmental establishments..............................	3,243	3,350	4,259
Fixed income securities...	7,229	6,594	680
Interest income	**126,736**	**130,333**	**96,362**

2017 and 2016 compared

The Bank's interest income fell by AED 4 million, or 2.8 per cent., in 2017 to AED 127 million from AED 130 million in 2016. This fall principally reflected an AED 11 million, or 10.2 per cent., fall in interest income from interbank placements in 2017 to AED 98 million from AED 109 million in 2016 which was offset by an AED 7 million, or 62.5 per cent., increase in interest income from loans and advances to customers in 2017 to AED 18 million from AED 11 million in 2016.

The fall in interest income from interbank placements in 2017 principally reflected the fact that its volume of interbank placements fell in 2017, in part reflecting lower amounts of funding received and in part reflecting a greater volume of funds deployed in loans and advances to customers from the third quarter of 2017. This volume-related fall was offset to an extent by slightly higher average rates achieved on interbank placements.

The increase in the Bank's interest income from loans and advances to customers in 2017 principally reflected the fact that its average volume of such loans and advances increased in 2017 and was offset to an extent by lower average rates achieved on such loans.

2016 and 2015 compared

The Bank's interest income increased by AED 34 million, or 35.3 per cent., in 2016 to AED 130 million from AED 96 million in 2015. This increase principally reflected an AED 37 million, or 50.1 per cent., increase in interest income from interbank placements in 2016 to AED 109 million from AED 73 million in 2015 and an AED 6 million increase in interest income from fixed income securities in 2016 to AED 7 million from AED 1 million in 2015. These increases were offset by an AED 8 million, or 40.7 per cent., fall in interest income from loans and advances to customers in 2016 to AED 11 million from AED 19 million in 2015.

The increase in interest income from interbank placements in 2016 was principally a result of higher average interest rates than in 2015 which was offset to an extent by lower average volumes of such placements.

The increase in interest income from fixed income securities in 2016 was principally a result of higher average interest rates than in 2015.

The fall in the Bank's interest income from loans and advances to customers in 2016 principally reflected the fact that interest income from legacy loans was suspended and not accounted for upon their classification as non-performing. This impact was partly offset by an increase in the volume of housing loans advanced in 2016 compared to 2015.

Interest expense

The Bank's interest expense is the interest that it pays on funds advanced to it by governmental authorities and establishments, including in particular the SZHP. The Bank does not accept deposits from the public.

The table below shows the Bank's interest expense in each of 2017, 2016 and 2015.

	2017	2016	2015
	(*AED thousands*)		
Deposits from governmental authorities and establishments	—	6,409	9,574
Deposits from the Sheikh Zayed Housing Programme	36,804	34,522	21,830
Other..	505	512	—
Interest expense	**37,309**	**41,443**	**31,404**

2017 and 2016 compared

The Bank's interest expense fell by AED 4 million, or 10.0 per cent., in 2017 to AED 37 million from AED 41 million in 2016. This fall principally reflected the fact that it paid no interest on deposits from governmental authorities and establishments in 2017 compared to AED 6 million paid in 2016 which was offset by an AED 2 million, or 6.6 per cent., increase in interest expenses on deposits from the SZHP in 2017 to AED 37 million from AED 35 million in 2016.

As at 31 December 2017, the Bank held AED 2,325 million in funds provided by the SZHP in the form of deposits categorised as funds from governmental institutions. In addition, as at 31 December 2017 the Bank held AED 50 million in funds provided by the Innovation Fund, all of which was in the form of call accounts categorised as deposits from governmental institutions. As at 31 December 2016, the Bank held AED 2,808 million in funds provided by the SZHP, of which AED 608 million was in the form of call accounts categorised as funds from governmental institutions and AED 2,200 million was in the form of deposits categorised as deposits from governmental institutions. The Bank's funds from the SZHP paid an effective average interest rate of 0.50 per cent. in 2017 compared to 0.47 per cent. in 2016.

2016 and 2015 compared

The Bank's interest expense increased by AED 10 million, or 32.0 per cent., in 2016 to AED 41 million from AED 31 million in 2015. This increase principally reflected an AED 13 million, or 58.1 per cent., increase in interest expenses on deposits from the SZHP in 2016 to AED 35 million from AED 22 million in 2015 which was offset by an AED 3 million, or 33.1 per cent., fall in interest expense on deposits from governmental authorities and establishments in 2016 to AED 6 million from AED 10 million in 2015.

As at 31 December 2015, the Bank held AED 2,600 million in funds provided by the SZHP, all of which was categorised as deposits from governmental institutions. In addition, as at 31 December 2015, the Bank held AED 700 million in funds provided by the General Pension and Social Security Authority, all of which was categorised as deposits from governmental institutions. The Bank's funds from the SZHP paid an effective average interest rate of 0.47 per cent. in both 2016 and 2015, although the SZHP's first deposit was only made in the second quarter of 2015 meaning that the interest amount received by the Bank on the SZHP funds was significantly higher in 2016.

Other components of total operating income

The other components of the Bank's total operating income are investment income, fee and commission income, profit from murabaha, ijarah and estisnaa and other income. Together, the other components of the Bank's total operating income amounted to AED 53 million in 2017 compared to AED 58 million in 2016 and AED 50 million in 2015, a fall of AED 5 million, or 8.0 per cent., in 2017 and an increase of AED 8 million, or 15.3 per cent., in 2016.

The table below shows the other components of the Bank's total operating income in each of 2017, 2016 and 2015.

	2017	**2016**	**2015**
		(*AED thousands*)	
Investment income	20,467	20,354[(1)]	15,476[(1)]
of which:			
Dividend income	*18,922*	*15,427*	*15,476*
Gain on disposal of investment securities	*1,545*	*4,927*	—
Fees and commission income	10,000	9,000	8,000
Profit from murabaha, ijarah and estisnaa	1,812	2,015	1,817
Other income	21,194	26,776[(1)]	25,141[(1)]
of which:			
Rental income on investment properties	*26,041*	*31,188*	*29,809*
Service charges	*(6,152)*	*(6,004)*	*(5,630)*
Other income	*1,305*	*1,592*	*962*
Total	**53,473**	**58,145**	**50,434**

Note:

(1) Reclassified in 2017 to conform to the presentation in the 2017 Financial Statements. See "*Presentation of financial and other information—Presentation of financial information—Comparability of information*".

Investment income

The Bank's investment income principally comprises the dividend income earned on its portfolio of FVOCI equity securities (the value of which was AED 384 million as at 30 September 2018). The Bank's investment income was AED 20 million in each of 2017 and 2016 and AED 15 million in 2015. The Bank's dividend income was AED 19 million in 2017 and AED 15 million in each of 2016 and 2015. In 2017, the Bank recorded gains of AED 2 million on the sale or conversion of certain fund investments and in 2016 it recorded AED 5 million on the sale of certain fund investments. No sales of investment securities were made in 2015.

Fees and commission income

The Bank's fee and commission income is principally derived from its service contract with the SZHP. The Bank's fee and commission income increased by AED 1 million in each of 2017 and 2016, increasing from AED 8 million in 2015 to AED 9 million in 2016 and AED 10 million in 2017. These increases reflect the provisions of the SZHP agreement.

Other income

The Bank's other income principally comprises rental income received on its investment properties. The Bank also incurs service charges relating to its investment properties. The Bank's rental income amounted to AED 26 million in 2017 compared to AED 31 million in 2016 and AED 30 million in 2015. The fall of AED 5 million, or 16.5 per cent., in 2017 compared to 2016 was principally due to lower rentals achieved for residential apartments in the Bank's Al Maha Tower investment property in Abu Dhabi. The increase of AED 1 million, or 4.6 per cent., in 2016 compared to 2015 principally reflected a slight increase in rentals achieved at Al Maha Tower.

The service charges paid by the Bank amounted to AED 6 million in each of 2016 and 2017.

Salaries and employee benefits

The Bank's salaries and employee benefits amounted to AED 38 million in 2017 compared to AED 34 million in 2016 and AED 33 million in 2015, an increase of AED 4 million, or 10.6 per cent., in 2017 and an increase of AED 1 million, or 3.8 per cent., in 2016. The increase in 2017 principally reflected new senior management hires.

Operating and administrative expenses

The Bank's operating and administrative expenses principally comprise its general and administrative expenses and its depreciation charge in respect of property, plant and equipment.

The table below shows the other components of the Bank's total operating income in each of 2017, 2016 and 2015.

	2017	2016	2015
		(*AED thousands*)	
General and administrative expenses	13,706	14,010	17,504
Depreciation	11,609	11,365	6,307
Others	—	—	3,592
Operating and administrative expenses	**25,315**	**25,375**	**27,403**

The Bank's operating and administrative expenses amounted to AED 25 million in each of 2017 and 2016 and to AED 27 million in 2015.

In 2016, the Bank reduced its general and administrative expenses by AED 3 million, or 20.0 per cent., principally reflecting the absence of expenses incurred in 2015 as one-off expenses relating to the establishment and official launch of the Bank. In the same year the Bank's depreciation charge increased by AED 5 million, or 80.2 per cent., principally reflecting the acquisition of new depreciable assets. In 2015, the Bank recorded other expenses of AED 4 million which were principally one-off establishment expenses.

Impairment charge

The Bank's impairment charge amounted to AED 22 million in 2017 and AED 17 million in 2016. The Bank did not record any impairment charge in 2015.

In 2017, the Bank made specific provisions of AED 16 million and collective provisions of AED 7 million in each case against its portfolio of outstanding loans and advances. The specific provision charged in 2017 principally related to a legacy position inherited by the Bank.

In 2016, the Bank made specific provisions in respect of loans and advances of AED 2 million and collective provisions in respect of loans and advances of AED 8 million. In addition, in 2016 the Bank recorded an AED 7 million provision in respect of additional rental income claimed by Dubai Municipality in respect of prior years.

Profit before revaluation of investment property and financial investments at FVTPL

Reflecting the above factors, the Bank's profit before revaluation of investment property and financial investments at FVTPL was AED 57 million in 2017 compared to AED 70 million in 2016 and AED 55 million in 2015, a fall of AED 13 million, or 18.5 per cent., in 2017 and an increase of AED 15 million, or 27.9 per cent., in 2016.

Loss or gain on revaluation of investment property and financial investments at FVTPL

In 2017, the Bank recorded an AED 18 million loss on revaluation of investment property and financial investments at FVTPL. In 2016 and 2015, the Bank recorded gains on revaluation of investment property and financial investments at FVTPL, amounting to AED 20 million and AED 1 million, respectively.

The table below shows the Bank's loss or gain on revaluation of investment property and financial investments at FVTPL in each of 2017, 2016 and 2015.

	2017	2016	2015
		(*AED thousands*)	
Gain on revaluation of financial assets at FVTPL.	1,040	26,783	12,000
Loss on revaluation of investment property	(19,320)	(6,392)	(10,775)
Loss or gain on revaluation of investment property and financial investments at FVTPL .	**(18,280)**	**20,391**[(1)]	**1,225**[(1)]

Note:

(1) Reclassified in 2017 to conform to the presentation in the 2017 Financial Statements. See "*Presentation of financial and other information—Presentation of financial information—Comparability of information*".

For a discussion of the reasons for the changes in the Bank's loss or gain recorded on revaluation of investment property and financial investments at FVTPL, see "*—Principal factors affecting results of operations—Gains or losses on the revaluation of investment property and financial investments at FVTPL*" above.

Profit for the year

Reflecting the above factors, the Bank's profit for the year was AED 39 million in 2017 compared to AED 91 million in 2016 and AED 56 million in 2015, a fall of AED 52 million, or 56.9 per cent., in 2017 and an increase of AED 35 million, or 61.4 per cent., in 2016.

Other comprehensive income

The Bank's only item of other comprehensive income is the net change in the fair value of its quoted and unquoted available for sale financial assets. These changes were a gain of AED 1 million in 2017, a loss of AED 15 million in 2016 and a loss of AED 44 million in 2015.

Total profit and comprehensive income

Reflecting the above factors, the Bank's total profit and other comprehensive income for the year was AED 40 million in 2017 compared to AED 76 million in 2016 and AED 12 million in 2015, a fall of AED 36 million, or 47.3 per cent., in 2017 and an increase of AED 64 million, or more than five times, in 2015.

FUNDING AND LIQUIDITY

Funding

The Bank's only source of funding to date has been deposits (in the form of call accounts) and funds (in the form of term deposits) from governmental institutions, which together amounted to AED 2,375 million as at 31 December 2017 compared to AED 2,808 million as at 31 December 2016 and AED 3,627 million as at 31 December 2015.

The table below shows the Group's funding as at 31 December in each of 2017, 2016 and 2015.

	As at 31 December		
	2017	**2016**	**2015**
		(*AED million*)	
Funds from governmental institutions	2,374,974	607,563	326,896
Deposits from governmental institutions	—	2,200,000	3,300,000
Total funding	**2,374,974**	**2,807,563**	**3,626,896**

The Bank currently has two sources of governmental institution funding: the SZHP and the Innovation Fund.

Sheikh Zayed Housing Program

The SZHP was established in 1999 and provides interest free loans repayable over a 25-year period to UAE citizens with low incomes. It also provides grants and non-reimbursable assistance to the poorest segments of society and prioritises orphans, widows, older people and people with special needs.

The Bank and the SZHP signed an agreement for the provision of banking, financial and investment management services on 8 March 2015. Under this agreement, the Bank provides services to the SZHP in return for which it is paid fees. These services include:

- receiving funds from the SZHP and using them to make advances to beneficiaries in the form of both conventional and Islamic housing loans, on the terms agreed by the SZHP and the beneficiary;
- administering the advances once made;
- making progress disbursements for housing projects and other financial aid to UAE nationals; and
- managing the recovery of the advances made.

The loans so made do not carry any risk to the Bank and therefore are not included in the Bank's statement of financial position. Instead loans granted and repayments received are reflected in changes in the balance of SZHP's current account with the Bank.

In addition, the UAE Ministry of Finance the ("**MoF**") periodically transfers the funds allocated to the SZHP to the current account of the Bank with the Central Bank. The SZHP earns interest at a floating rate on the funds held with the Bank and the effective average interest rate earned on the funds was 0.50 per cent. in 2017 and 0.47 per cent. in each of 2016 and 2015. This interest paid by the Bank accounted for all of the Bank's interest expense in 2017 and the majority of the Bank's interest expense in 2016 and 2015.

The substantial risk and rewards associated with these funds is with the Bank and, as a result, the funds of the SZHP deposited with the Bank are disclosed as part of the Bank's assets (as call accounts and placements within due from other banks in the statement of financial position). The typical maturity of these deposited funds is around 3 months.

Sheikh Mohammed Bin Rashid Innovation Fund

The Innovation Fund is a government initiative created by the UAE Prime Minister, His Highness Sheikh Mohammed bin Rashid Al Maktoum, in 2015 to finance and foster innovation. The MoF is responsible for the Innovation Fund's implementation and the Bank has been appointed by the MoF to act as the administrative host and operator of the Innovation Fund.

The scope of the Bank's responsibilities includes review and comment on the Innovation Fund's policy, guidelines, and terms and conditions, assist in the development of the Innovation Fund's operating manual, support in sourcing and contracting experts for the Innovation Fund's Decision and Advisory Committee, support in contracting strategic partners, promoting and marketing the Innovation Fund, approving the operations team, managing the Innovation Fund account, managing the Innovation Fund's annual report, maintaining the Innovation Fund's website and overseeing the performance of the Innovation Fund's operations team.

The Innovation Fund's annual expenses budget is prepared by the Bank and submitted to the MoF, which in turn pays the Bank on a monthly basis in accordance with the annually agreed expenses budget.

The Bank is not authorised to accept deposits from the public and does not have any borrowings.

Liquidity

The Bank's liquidity needs arise primarily from making financing available to its customers, the payment of operating expenses and the acquisition of investment securities. To date, the Bank's liquidity needs have been funded through funds and deposits from governmental institutions and operating cash flow. See "—*Funding*" above and "—*Cash flow*" below.

Cash flow

The table below summarises the Bank's cash flow from operating activities, investing activities and financing activities for each of 2017, 2016 and 2015.

	2017	**2016**	**2015**
		(*AED thousands*)	
Net cash generated from operating activities	28,102	775,145	1,469,317
Net cash (used in)/generated from investing activities.....	(4,026)	10,284	(220,886)
Cash and cash equivalents at 1 January...........................	2,857,567	2,072,138	823,707
Cash and cash equivalents at 31 December.....................	2,881,643	2,857,567	2,072,138

Operating activities

The Bank's net cash generated from operating activities was AED 28 million in 2017 compared to AED 775 million in 2016 and AED 1,469 million in 2015. The Bank's cash from operating activities before changes in operating assets and liabilities reflects its net profit for the year, with the main adjustments in each year being in respect of fair value changes, impairment charges and depreciation.

The Bank's net cash generated from operating activities before changes in operating assets and liabilities was AED 91 million in 2017 compared to AED 72 million in 2016 and AED 46 million in 2015. The main changes in operating assets and liabilities relate to the deposits and funds received from governmental institutions and the Bank's loans and advances and inter-bank deposits placed maturing after three months.

In 2017, the Bank had net inflows from operating assets and liabilities of AED 1,767 million in funds from the SZHP and AED 630 million in maturing inter-bank deposits which was offset by outflows of AED 2,200 million in deposits from governmental institutions and AED 269 million in loans and advances.

In 2016, the Bank had net inflows from operating assets and liabilities of AED 1,567 million in maturing inter-bank deposits and AED 281 million from the SZHP which was offset by outflows of AED 1,100 million in deposits from governmental institutions and AED 53 million in loans and advances.

In 2015, the Bank had net inflows from operating assets and liabilities of AED 1,825 million in deposits from governmental institutions and AED 83 million in loans and advances which was offset by outflows of AED 381 million in funds from the SZHP and AED 94 million from inter-bank deposits placed.

Investing activities

The Bank's net cash used in investing activities was AED 4 million in 2017 compared to net cash from investing activities of AED 10 million in 2016 and net cash used in investing activities of AED 221 million in 2015. The Bank's investing activities principally comprise dividends received from its portfolio of equity securities, purchases and sales of available for sale securities, amounts spent acquiring property and equipment and, in 2016, net proceeds from the sale of investment properties.

In 2017, the Bank purchased a net AED 16 million in available for sale securities and purchased AED 6 million property and equipment. These outflows were offset by AED 17 million in dividends received.

In 2016, the Bank received dividends of AED 20 million and sold a net AED 14 million in available for sale securities. These cash inflows were offset by AED 10 million spent on acquiring property and equipment and AED 13 million in cash outflow in respect of investment property in Dubai.

In 2015, the Bank spent a net AED 205 million in acquiring available for sale securities and a net AED 32 million on acquiring property and equipment. These outflows were offset by dividends received of AED 15 million.

Financing activities

The Bank had no cash flows from financing activities in 2017, 2016 or 2015.

INVESTMENT SECURITIES PORTFOLIO

The Bank maintains an investment securities portfolio comprising bonds and equity securities issued by both quoted and unquoted companies. The Bank believes that it will be able to utilise the quoted investment securities as a source of liquidity, either through direct sale or to raise secured funding.

The table below shows the classification of the Group's investment securities portfolio by category of investment as at 31 December in each of 2017, 2016 and 2015 in accordance with IAS 39.

	As at 31 December		
	2017	**2016**	**2015**
	(AED thousands)		
Available for sale			
Bonds	187,587	182,019	198,972
Quoted equity securities	176,230	160,040	172,316

	As at 31 December		
	2017	2016	2015
	(AED thousands)		
Unquoted equity securities	25,400	30,175	31,508
Managed funds	—	—	7,369
Total available for sale investment securities	**389,217**	**372,234**	**410,165**
FVTPL unquoted equity securities	180,413	197,626	170,843
Total investment securities	**569,630**	**569,860**	**581,008**

Unquoted equity securities which are classified as held at FVTPL are those which the Bank holds principally for the purpose of selling in the short-term. These are initially recognised at fair value and subsequently measured at fair value on each reporting date, with any changes in fair value being recognised in the profit or loss statement in the period in which they arise.

The remaining securities in the portfolio are classified as available for sale. These securities are initially recognised at fair value and subsequently measured at fair value on each reporting date, with any changes in fair value being recognised in the statement of comprehensive income in the period in which they arise.

On any sale of FVTPL securities, the resulting gain or loss is recognised in profit or loss and, in the case of a sale of available for sale securities, any cumulative change in fair value previously recognised in equity through the statement of comprehensive income is then recognised in profit or loss.

The classification and treatment of the Bank's investment securities portfolio has been impacted by IFRS 9 since 1 January 2008. See notes 8 and 19 to the Interim Financial Statements.

INVESTMENT PROPERTIES

The Bank has a portfolio of investment properties comprising land, buildings and properties under development which are principally located in Abu Dhabi and Dubai. The fair value of this portfolio amounted to AED 572 million as at 31 December 2017 compared to AED 591 million as at 31 December 2016 and AED 584 million as at 31 December 2015.

The Bank's investment properties are fair valued annually and changes in the value of the portfolio reflect the fair value gain or loss at each reporting period which is charged to the profit or loss statements and, during 2016, the acquisition of a new investment property.

See generally note 11 to the 2017 Financial Statements which provides further information on the Bank's investment properties.

LOANS AND ADVANCES AND ISLAMIC FINANCING

Loans and advances

The table below shows details of the Bank's portfolio of loans and advances as at 31 December in each of 2017, 2016 and 2015.

	As at 31 December		
	2017	**2016**	**2015**
		(AED million)	
Loans and advances[1]	226,628	244,198	234,402
Loans to financial institutions[2]	148,238	149,716	153,893
Housing loans	390,010	98,748	20,123
Total loans and advances	**764,876**	**492,662**	**408,418**
Less allowance for impairment	(182,593)	(158,889)	(149,087)
Less: interest in suspense	(3,600)	(1,872)	(1,217)
Net loans and advances	**578,683**	**331,901**	**258,114**

Notes:

(1) This includes loans which are granted for industrial projects and related services at a value of AED 54 million as at 31 December 2017, AED 59 million as at 31 December 2016 and AED 76 million as at 31 December 2015 in the UAE. Loans are generally granted at fixed interest with annual rates between 3 per cent. and 6 per cent. in 2017, 2 per cent. and 6 per cent. in 2016 and 4.5 per cent. and 6 per cent. in 2015. This also includes three real estate loans at a value of AED 103 million as at 31 December 2017, AED 115 million as at 31 December 2016 and AED 114.9 million as at 31 December 2015 which had been granted by one of the Bank's predecessors, Emirates Real Estate Bank, in 2010. Prior to 1 January 2017, these loans bore floating rates of interest of 3-month EIBOR plus a fixed margin up to 3.25 per cent. From 1 January 2017, the loans carry a floating rate of interest of 3-month EIBOR plus 1.5 per cent. As at 31 December 2017, 11.8 per cent. of these loans mature in one year, 47.1 per cent. mature between two and five years and 41.2 per cent. mature after five years.

(2) Loans to financial institutions represents placements that had no collateral and were individually impaired with Amlak Finance and Global Investment House amounting to AED 148 million as at 31 December 2017, AED 150 million as at 31 December 2016 and AED 154 million as at 31 December 2015. The provision on these loans amounted to AED 74 million as at 31 December 2017, AED 75 million as at 31 December 2016 and AED 85 million as at 31 December 2015. During 2015, pursuant to an overall exposure re-structuring agreement entered into in 2014 with all lenders, the Bank reclassified AED 19 million (which is fully provided for and related to an Amlak contingent convertible instrument) into the available for sale portfolio.

The Bank's total loans and advances increased by AED 272 million, or 55.3 per cent., in 2017 and increased by AED 84 million, or 20.6 per cent., in 2016.

In both 2017 and 2016, the increase principally reflected significant increases in housing loans, which were mainly top-up loans as a result of an increase in SZHP sales activities.

The table below shows the movements in the Bank's provision for impairment on its loans and advances in each of 2017, 2016 and 2015.

	As at 31 December		
	2017	2016	2015
	(AED thousands)		
Balance as at 1 January	158,889	149,087	149,087
Additional (excess) specific provisions	16,383	1,802	(8,548)
Collective provision	7,321	8,000	8,548
As at 31 December	**182,593**	**158,889**	**149,087**

The table below shows the carrying amount of the Bank's non-performing loan and advances as at 31 December in each of 2017, 2016 and 2015.

	As at 31 December		
	2017	2016	2015
	(AED thousands)		
Substandard	—	—	153,893
Doubtful	150,242	151,689	6,905
Loss	114,740	123,715	115,042
Outstanding	**264,982**	**275,404**	**275,840**
Less: specific allowance for impairment	(182,593)	(158,889)	(141,756)
Carrying amount	**82,389**	**116,515**	**134,084**

The table below shows the industry sector distribution of the Bank's total loan and advances as at 31 December in each of 2017, 2016 and 2015.

	As at 31 December		
	2017	**2016**	**2015**
		(AED thousands)	
Financial services	148,238	149,717	153,893
Food and beverage	671	6,907	1,000
Non-metallic mineral products	110,796	111,651	105,161
Base metals	—	2,038	10,799
Chemical products	3,218	4,218	—
Real estate	492,816	178,168	114,825
Other	9,137	39,962	22,740
Total loans and advances	**764,876**	**492,661**	**408,418**
Less: provisions and interest in suspense	(186,193)	(160,760)	(150,304)
Net loans and advances	**578,683**	**331,901**	**258,114**

The Bank's loans and advances are concentrated on the real estate, financial services and non-metallic mineral products sectors.

Real estate loans, which comprise the Bank's portfolio of housing loans, accounted for 64.4 per cent. of the Bank's total loans and advances as at 31 December 2017, 36.2 per cent. as at 31 December 2016 and 28.1 per cent. as at 31 December 2015. The significant increase in the concentration on the real estate sector in each year reflects the significant expansion of the Bank's housing loan portfolio.

Financial services loans, which principally comprise loans to two financial institutions, accounted for 19.4 per cent. of the Bank's total loans and advances as at 31 December 2017, 30.4 per cent. as at 31 December 2016 and 37.7 per cent. as at 31 December 2015. The amount of the Group's financial services loans outstanding has remained relatively constant in 2017, 2016 and 2015 and the declining concentration reflects the significant expansion of the Bank's housing loan portfolio.

Non-metallic mineral product loans, which principally comprise loans to concrete and cement manufacturers, accounted for 14.5 per cent. of the Bank's total loans and advances as at 31 December 2017, 22.7 per cent. as at 31 December 2016 and 25.7 per cent. as at 31 December 2015. The amount of the Group's non-metallic mineral product loans outstanding has also remained relatively constant in 2017, 2016 and 2015 and the declining concentration also reflects the significant expansion of the Bank's housing loan portfolio.

The Bank's loans and advances are also geographically concentrated in the UAE, with 94.3 per cent. of its maximum exposure to credit risk under loans and advances as at 31 December 2017 being UAE risk and the balance being GCC risk. In relation to its relatively small portfolio of murabaha, ijara and estisnaa contracts, 59.4 per cent. of its maximum exposure to credit risk as at 31 December 2017 was UAE risk, with the balance being outside the GCC.

Islamic financing

The table below shows details of the Bank's Islamic financing portfolio as at 31 December in each of 2017, 2016 and 2015.

	As at 31 December		
	2017	**2016**	**2015**
		(AED million)	
Murabaha and estisnaa contracts	19,726	24,720	36,683
Ijarah contracts	68,023	48,832	57,346
Total Islamic financing	**87,749**	**73,552**	**94,029**
Less allowance for impairment	(4,273)	(4,273)	(4,273)
Net Islamic financing	**83,476**	**69,279**	**89,756**

The Bank's total Islamic financing increased by AED 14 million, or 19.3 per cent., in 2017 and fell by AED 20 million, or 21.8 per cent., in 2016.

In 2017, the increase principally reflected an increase in ijarah contracts which was offset by a fall in murabaha and estisnaa contracts. The Bank's ijarah contracts increased as a result of new Islamic home financing advanced. Its murabaha and estisnaa contracts fell as a result of repayments exceeding new financing advanced.

In 2016, the fall reflected falls in both ijarah contracts and murabaha and estisnaa contracts. These falls principally reflected repayments exceeding new financing advanced.

The Bank, through its predecessors Emirates Real Estate Bank and Emirates Industrial Bank, has entered into a number of ijarah contracts with Emirates Real Estate Corporation to finance the acquisition of properties on behalf of the UAE Ministry of Foreign Affairs in various countries. Lease rentals under these ijarah contracts are paid by reference to six-month EIBOR plus a fixed premium.

The table below shows the minimum ijarah payments due by time period, and the present value of them, as at 31 December in each of 2017, 2016 and 2015.

	As at 31 December 2017		As at 31 December 2016		As at 31 December 2015	
	Minimum payments	**Present value**	**Minimum payments**	**Present value**	**Minimum payments**	**Present value**
			(*AED thousands*)			
Within one year	11,418	9,286	9,451	8,514	9,431	8,514
Between two and five years	41,270	34,257	36,172	32,968	39,595	36,168
More than five years	32,374	24,480	7,542	7,350	13,075	12,664
Total	**85,062**	**68,023**	**53,165**	**48,832**	**62,101**	**57,346**

The annual fixed instalment due from the Bank's ijarah contracts was AED 11 million in 2017, AED 9 million in 2016 and AED 9 million in 2015. A rate of EIBOR plus 1 per cent. has been taken as the rate implicit in the ijarah, being the internal rate of return based on management's estimation. Income from ijarah contracts is recognised based on a pattern reflecting a variable periodic rate of return on the Bank's net investment in ijarah, which was AED 68 million as at 31 December 2017, AED 49 million as at 31 December 2016 and AED 57 million as at 31 December 2015.

Under the ijarah contracts, the Bank is permitted to sell or re-pledge the collateral in the case of a default by the lessee. Ijarah contracts receivable balances are secured by a mortgage over the ijarah properties. The gross amount of the Bank's non-performing murabaha, estisnaa and ijarah contracts amounted to AED 6 million as at 31 December in each of 2017, 2016 and 2015 and was fully provided for in all cases.

The table below shows the movements in the Bank's provision for impairment on its Islamic financing in each of 2017, 2016 and 2015.

	As at 31 December		
	2017	**2016**	**2015**
		(AED thousands)	
Balance as at 1 January	4,273	4,273	4,273
Charge for the period...	—	—	—
As at 31 December...	**4,273**	**4,273**	**4,273**

The table below shows the carrying amount of the Bank's non-performing Islamic financing as at 31 December in each of 2017, 2016 and 2015.

	As at 31 December		
	2017	2016	2015
	(AED thousands)		
Substandard	—	—	—
Doubtful	—	—	—
Loss	4,273	4,273	4,273
Outstanding	**4,273**	**4,273**	**4,273**
Less: specific allowance for impairment	(4,273)	(4,273)	(4,273)
Carrying amount	**—**	**—**	**—**

The table below shows the industry sector distribution of the Bank's Islamic financing as at 31 December in each of 2017, 2016 and 2015.

	As at 31 December		
	2017	2016	2015
	(AED thousands)		
Real estate	83,476	63,267	77,599
Plastic products	—	—	3,707
Other	4,273	10,285	12,723
Total Islamic financing	**87,749**	**73,552**	**94,029**
Less: provision for impairment	(4,273)	(4,273)	(4,273)
Net Islamic financing	**83,476**	**69,279**	**89,756**

The Bank's Islamic financing is concentrated on the real estate sector, which accounted for 95.1 per cent. of the Bank's total Islamic financing as at 31 December 2017, 86 per cent. as at 31 December 2016 and 82.5 per cent. as at 31 December 2015.

CAPITAL ADEQUACY

Although the Bank is not required to comply with any specific capital adequacy regulations, it voluntarily follows the rules and ratios established by the Basel Committee and adopted by the Central Bank.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of return on capital is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

As at 31 December 2017, the Bank's total capital ratio was 128.8 per cent. and its tier 1 regulatory capital ratio was 127.8 per cent. Since the Bank is not required to comply with any specific capital adequacy regulations, these capital ratios are not formal Basel III ratios, however, they are internal estimates calculated in line with the methodology specified by the Basel Committee and adopted by the Central Bank.

CREDIT COMMITMENTS AND CONTINGENCIES

The Bank's commitments comprise revocable commitments to extend credit. The Bank had no contingencies or other commitments as at 31 December in each of 2017, 2016 and 2015.

The table below shows the Bank's commitments as at 31 December in each 2017, 2016 and 2015.

	As at 31 December		
	2017	**2016**	**2015**
		(*AED thousands*)	
Credit commitments	101,833	49,834	28,519

RELATED PARTY TRANSACTIONS

The Bank's principal related party transactions are with its shareholder and its directors and key management, other companies controlled by any of them and other UAE federal government entities. These transactions include financing provided (including commitments to extend financing) and deposits and funds received. Further information on the Bank's related party transactions in 2017, 2016 and 2015 is set out in note 25 to each of the Financial Statements.

DISCLOSURES ABOUT RISK

The Bank is exposed to a number of financial risks and takes steps to mitigate certain of these risks as described in "*Risk management*" and in note 4 to the 2017 Financial Statements.

SELECTED FINANCIAL INFORMATION

The following information has been extracted from, and should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements and should also be read in conjunction with "Financial review".

See also "Presentation of financial and other information" for a discussion of the sources of the numbers contained in this section.

All information as at and for the nine-month periods ended 30 September 2018 and 30 September 2017 is unaudited. Investors should not rely on interim results as being indicative of the results the Bank may achieve for the full year.

STATEMENT OF FINANCIAL POSITION DATA

The table below shows the Bank's statement of financial position data as at 30 September 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 September	**As at 31 December**		
	2018	**2017**	**2016**	**2015**
		(*AED thousands*)		
	Unaudited			
Assets				
Cash and balances with the UAE Central Bank	857,257	238,188	160,412	26
Due from banks	2,438,229	3,653,455	4,337,154	5,279,112
Loans and advances	967,934	578,683	331,901	258,114
Murabaha, ijarah and estisnaa contracts	263,833	83,476	69,279	89,756
Available for sale financial assets		389,217	372,234	410,165
Investment securities	728,899	—	—	—
Financial investments at fair value through profit or loss	—	180,413	197,626	170,843
Investment property	554,000	571,720	591,040	584,280
Property and equipment	55,416	63,467	69,497	70,398
Other assets	32,575	27,973	33,251	33,749
Total assets	**5,898,143**	**5,786,592**	**6,162,394**	**6,896,443**

Liabilities				
Deposits from governmental institutions........	1,300,000	—	2,200,000	3,300,000
Funds from governmental institutions............	649,548	2,374,794	607,563	326,896
Other liabilities...	153,929	70,052	63,951	54,896
Total liabilities	**2,103,477**	**2,444,846**	**2,871,514**	**3,681,792**
Shareholders' equity				
Paid up capital	2,621,996	2,195,996	2,195,996	2,195,996
Other reserves...	570,064	570,064	555,464	555,464
Retained earnings	529,610	501,705	466,515	375,701
Fair value reserve	72,996	73,981	72,905	87,490
Total shareholders' equity	**3,794,666**	**3,341,746**	**3,290,880**	**3,214,651**
Total liabilities and shareholders' equity ...	**5,898,143**	**5,786,592**	**6,162,394**	**6,896,443**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME DATA

The table below shows the Bank's consolidated interim statement of profit or loss and other comprehensive income data for each of the nine-month periods ended 30 September 2018 and 30 September 2017.

	Nine months ended 30 September	
	2018	**2017**
	(*AED thousands*)	
	Unaudited	
Income		
Interest income	101,612	95,754
Interest expense	(30,578)	(27,521)
Net interest income	**71,034**	**68,233**
Profit from murabaha, ijarah and estisnaa	4,468	1,287
Net interest income and income from Islamic financing	**75,502**	**69,520**
Investment income	15,754	20,515
Fees and commission income	9,055	7,509
Other income	13,812	15,876
Total operating income	**114,123**	**113,420**
Expenses		
Salaries and employee benefits	(34,336)	(25,457)
Depreciation	(6,463)	(8,756)
Operating and administrative expenses	(17,043)	(9,563)
Impairment charge	(5,195)	(17,214)
Profit before revaluation of investment property and financial investments	**51,086**	**52,430**
Loss on revaluation of investment property and financial investments	(21,708)	(19,380)
Profit for the period	**29,378**	**33,050**
Items that will not be reclassified to profit or loss		

(Decrease)/increase in financial investments at FVOCI.................	(2,458)	5,904
Total comprehensive income for the period................................	**26,920**	**38,954**

The table below shows the Bank's statement of profit or loss and other comprehensive income data for each of 2017, 2016 and 2015.

	2017	2016	2015
		(*AED thousands*)	
Income			
Interest income	126,736	130,333	96,362
Interest expense	(37,309)	(41,443)	(31,404)
Net interest income	**89,427**	**88,890**	**64,958**
Profit from murabaha, ijarah and estisnaa	1,812	2,015	1,817
Investment income	20,467	20,354(1)	15,476(1)
Fees and commission income	10,000	9,000	8,000
Other income	21,194	26,776(1)	25,141(1)
Total operating income	**142,900**	**147,035**(1)	**115,392**(1)
Expenses			
Salaries and employee benefits	(37,806)	(34,191)	(32,937)
Operating and administrative expenses	(25,315)	(25,375)	(27,403)
Impairment charge	(22,398)	(17,046)	—
Profit before revaluation of investment property and financial investments at FVTPL	**57,381**	**70,423**(1)	**55,052**(1)
(Loss)/gain on revaluation of investment property and financial investments at FVTPL	(18,280)	20,391(1)	1,225(1)
Profit for the year	**39,101**	**90,814**	**56,277**
Items that are or may be reclassified to profit or loss			
Increase/(decrease) in the fair value of available for sale investments	1,076	(14,585)	(44,240)
Total comprehensive income	**1,076**	**(14,585)**	**(44,240)**
Total profit and comprehensive income	**40,177**	**76,229**	**12,037**

Note:

(1) Re-presented to conform to the presentation in 2017.

STATEMENT OF CASH FLOWS DATA

The table below summarises the Bank's statement of cash flows data for each of the nine-month periods ended 30 September 2018 and 30 September 2017.

	Nine months ended 30 September	
	2018	**2017**
	(*AED thousands*)	
	Unaudited	
Net cash flows used in operating activities	(1,578,567)	(1,899,863)
Net cash flows (used in)/from investing activities	(148,590)	10,122
Net cash flows from financing activities	426,000	—
Cash and cash equivalents at 1 January	2,881,643	2,857,566
Cash and cash equivalents at 30 September	1,580,486	967,825

The table below summarises the Bank's statement of cash flows data for each of 2017, 2016 and 2015.

	2017	**2016**	**2015**
		(*AED thousands*)	
Net cash flows from operating activities	28,102	775,145	1,469,317
Net cash flows (used in)/from investing activities	(4,026)	10,284	(220,886)
Net cash flows used in financing activities	—	—	—
Cash and cash equivalents at 1 January	2,857,567	2,072,138	823,707
Cash and cash equivalents at 31 December	2,881,643	2,857,567	2,072,138

SELECTED FINANCIAL RATIOS

The table below shows selected financial ratios for the Bank as at, and for the nine-month periods ended, 30 September in each of 2018 and 2017 and as at, and for the years ended, 31 December in each of 2017, 2016 and 2015.

	As at/nine months ended 30 September		As at/years ended 31 December		
	2018	**2017**	**2017**	**2016**	**2015**
	Unaudited				
Performance measures					
Return on average assets[(1)]	0.67%	0.74%	0.65%	1.39%	0.91%
Return on average equity[(2)]..........	1.10%	1.33%	1.18%	2.79%	1.75%
Cost to income ratio[(3)]	50.68%	38.60%	44.17%	40.51%	52.29%
Financial ratios					
Net interest margin[(4)]	2.33%	1.94%	1.91%	1.69%	1.32%
Net profit margin[(5)]	52.2%	47.5%	49.0%	103.8%	102.2%
Asset quality					
Impaired loans ratio[(6)].................	18.6%	36.8%	31.7%	49.6%	56.7%
Loan loss coverage ratio[(7)]...........	74.6%	67.2%	69.0%	58.0%	54.7%
Liquidity coverage ratio[(8)]	64.8%	74.9%	73.6%	78.5%	81.9%
Loans to deposits ratio[(9)].............	63.2%	22.5%	27.9%	14.3%	9.6%
Other ratios					
Leverage ratio[(10)]	63.1%	55.8%	56.5%	52.2%	45.3%

Notes:

(1) Profit for the year/period (on an annualised basis) attributable to shareholders of the Bank divided by average assets for the year/period, with average assets calculated as the sum of assets at the start and end of each year/period divided by two.

(2) Profit for the year/period (on an annualised basis) attributable to shareholders of the Bank divided by average shareholders' equity for the year/period, with average shareholders' equity calculated as the sum of shareholders' equity at the start and end of each year/period divided by two.

(3) Operating expenses divided by net operating income.

(4) Net interest income for the year/period (on an annualised basis) divided by average interest earning assets for the year/period, with average interest earning assets calculated as the sum of interest earning assets at the

start and end of each year/period divided by two. Interest earning assets comprise Due from banks, Loans and advances, Loans to governmental establishments and Fixed income securities.

(5) Profit for the year/period attributable to shareholders of the Bank divided by net operating income for the year/period.

(6) Impaired loans as a percentage of total gross loans, in each case as at the end of the year/period.

(7) Loan loss provisions as a percentage of impaired loans, in each case as at the end of the year/period.

(8) Sum of liquid funds, trading securities, fixed income funds and placements divided by total assets, in each case as at the end of the year/period.

(9) Total loans and advances divided by total deposits, in each case as at the end of the year/period.

(10) Calculated in accordance with Basel III, as implemented in the UAE as at the end of the year/period.

RISK MANAGEMENT

OVERVIEW

The Bank faces a wide range of risks in its business and operations, including:

- **credit risk**, which is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment securities. Credit risk also arises through the downgrading of counter parties, whose credit instruments are held by the Bank, thereby causing the value of the instruments to fall;

- **liquidity risk**, which is the risk that the Bank will be unable to meet its obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn;

- **market risk**, which is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices; and

- **operational risk**, which is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank has management committees to oversee its risk management process. The Board Audit, Risk & Compliance Committee (the "**BARCC**") defines policies, processes and systems to manage and monitor credit, market and operational risks. The Bank also has a credit risk function, which independently reviews adherence to all risk management policies and procedures. The Bank's internal audit function, which is part of risk framework, primarily evaluates the effectiveness of the controls addressing operational risk.

The Bank's risk management policies are designed to identify and analyse the risks that it faces, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank's management regularly reviews the risk management policies and systems to reflect changes in markets, products and emerging best practice.

CREDIT RISK

Overview

As credit risk is the Bank's most important risk, considerable resources, expertise and controls are devoted to managing this risk within the Bank.

Management is responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives.

The Bank's credit policy provides a systematic and consistent approach to identifying and managing borrower and counterparty risks.

The Bank's credit risk function and its credit team are responsible for the recognition and management of credit risk both at transaction and portfolio levels and for ensuring that risk procedures are adhered to in a manner consistent with the Bank's credit policy. The Bank manages limits and controls concentration of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries.

The Bank manages credit risk through diversification of investment activities to avoid undue concentrations of risks in specific locations or industry segments. The Bank also monitors credit exposures by limiting transactions with specific counterparties, and it continually assesses the creditworthiness of its counterparties.

For risk management purposes, credit risk arising on financial assets at fair value through profit or loss is managed independently, and reported as a component of market risk exposure.

The Bank's credit risk management framework includes:

- formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements in consultation with business units;

- establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit credit officers. Larger facilities require the approval of a credit manager, the head of credit, the credit committee or the Board, as appropriate;

- reviewing and assessing all credit exposures in excess of designated limits, prior to the facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process;

- limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances) and by issuer, credit rating band, market liquidity and country (for available for sale investments);

- developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading system comprises seven grades reflecting various degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews; and

- reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

In addition, the Bank manages its credit exposure by obtaining collateral where appropriate and by limiting the duration of the exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk. Credit risk in respect of derivative financial instruments, if any, is limited to those with positive fair values.

Collateral

Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations. The Bank's credit policy and procedures set out the acceptable types of collateral, as well as the process by which additional instruments and/or asset types can be considered for approval.

As at 31 December 2017, the Bank held credit risk mitigants with an estimated value of AED 104 million (2016: AED 135 million and 2015: AED 173 million) against its receivables from loans and advances and murabaha, ijarah and estisnaa contracts. These credit risk mitigants comprised real estate collateral, security over other assets, cash deposits and guarantees. The Bank accepts sovereign guarantees and guarantees from reputed local and international banks, well-established local or large multinational corporates and high net worth private individuals. Collateral is not generally held against placements with banks and other financial institutions.

Credit exposure

The table below shows the Bank's credit exposure from mortgage loans to retail customers by loan to value ("**LTV**") ratio as at 31 December in each of 2017, 2016 and 2015.

	As at 31 December		
	2017	**2016**	**2015**
		(*AED thousands*)	
Less than 50%	—	6,809	—
51-70%	51,858	8,108	350
71-90%	35,685	7,548	1,165
91-100%	302,467	76,283	18,608
	390,010	**98,748**	**20,123**

The table below shows the Bank's credit risk exposures relating to its statement of financial position assets as at 31 December in each of 2017, 2016 and 2015.

	As at 31 December		
	2017	**2016**	**2015**
		(*AED thousands*)	
Cash and balances with the Central Bank	238,188	160,412	26
Due from banks	3,653,455	4,337,154	5,279,112
Loans and advances...........................	578,683	331,901	258,114
Murabaha, ijarah and estisnaa contracts	83,476	69,279	89,756
Available for sale financial assets	187,587	182,019	198,972[(1)]
Other assets	6,226	23,796	22,645[(1)]
	4,747,615	**5,104,561**	**5,848,625**

Notes:
(1) Re-presented to conform to presentation in 2017.

Concentrations

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. The Bank monitors concentrations of credit risk by sector and by geographic location.

Note 4.2.1 to each of the Financial Statements contains a table showing the Bank's concentration of credit risk analysed by public, private and financial sectors. In percentage terms, financial sector credit risk exposures accounted for 80.0 per cent. of the Bank's total exposure to credit risk as at 31 December 2017 while private and public sector credit risk exposures accounted for 12.4 per cent. and 7.6 per cent., respectively.

In geographic terms, the UAE accounted for 98.4 per cent. of the Bank's total exposure to credit risk as at 31 December 2017 with the GCC accounting for 0.9 per cent. and other countries making up the balance.

Credit quality

Loans and advances to customers and murabaha, ijarah and estisnaa contracts

The table below shows the credit quality of the Bank's loans and advances to customers and murabaha, ijarah and estisnaa contracts as at 31 December in each of 2017, 2016 and 2015.

	As at 31 December		
	2017	**2016**	**2015**
		(*AED thousands*)	
Neither past due nor impaired	580,555	280,410	210,482
Past due but not impaired	2,815	6,126	3,304
Individually impaired	271,003	281,425	280,113
Gross...	**854,373**	**567,961**	**493,899**
Less: allowance for impairment	(188,614)	(164,910)	(144,812)
Less: interest in suspense	(3,600)	(1,871)	(1,217)
Net...	**662,159**	**401,180**	**347,870**

As at 31 December 2017, the Bank's impaired loans and advances to customers and murabaha, ijarah and estisnaa contracts amounted to AED 271 million, or 31.7 per cent., of its gross loans and advances to customers and murabaha, ijarah and estisnaa contracts. The equivalent percentages as at 31 December 2016 and 31 December 2015 were 49.6 per cent. and 56.7 per cent., respectively. In each case these high levels of impaired loans reflected the residual outstanding loans of the legacy portfolio of the Bank's predecessor banks.

As at 31 December 2017, the Bank's allowance for impairment in respect of its loans and advances to customers and murabaha, ijarah and estisnaa contracts amounted to AED 189 million, or 69.6 per cent., of its total individually impaired loans and advances to customers and murabaha, ijarah and estisnaa contracts. The equivalent percentages as at 31 December 2016 and 31 December 2015 were 58.6 per cent. and 51.7 per cent., respectively.

The table below shows the Bank's 10 largest individually impaired loans as at 31 December 2017.

	Sector	**Size of initial loan**	**Collateral**	**Amount recovered**
			(*AED million*)	
Borrower 1	Non-bank financial institution (**NBFI**)	150,000	66,088	0
Borrower 2	NBFI	150,000	91,917	0
Borrower 3	Construction	70,000	59,321	71,708
Borrower 4	Construction	21,950	20,508	3,400
Borrower 5	Construction	9,986	10,646	2,523
Borrower 6	Building materials	5,000	5,000	1,428

Borrower 7	Furniture	5,000	3,241	0
Borrower 8	Building materials	2,984	2,984	1,980
Borrower 9	Building materials	2,596	2,555	0
Borrower 10	Other manufacturing	5,000	1,941	4,160
Total		**422,516**	**264,201**	**85,199**

All of the above loans are legacy loans inherited from the Bank's predecessor banks. The Bank's NPL portfolio as at 30 September 2018 consisted of AED 264.6 million legacy NPLs and AED 2.3 million of NPLs related to the real estate finance business incurred following the creation of the Bank. As at the same date, there were no NPLs in the business finance portfolio.

Neither past due nor impaired

The Bank actively manages and monitors its credit risk, both on and off statement of financial position, in accordance with defined credit policies and procedures. The creditworthiness of each counterparty is evaluated and appropriate credit limits are established. To reduce individual counterparty credit risk, the Bank ensures, whenever necessary, that all loans are secured by acceptable forms of collateral. Established limits and actual levels of exposure are regularly reviewed and updated by management. Credit review procedures are designed to identify at an early stage exposures which require more detailed monitoring and review.

The table below analyses the Bank's loans and advances to customers and murabaha, ijarah and estisnaa contracts which are neither past due not impaired by type of facility as at 31 December in each of 2017, 2016 and 2015.

	As at 31 December		
	2017	**2016**	**2015**
		(*AED thousands*)	
Neither past due nor impaired			
Loans and advances................................	497,079	211,131	129,274
Murabaha and estisnaa contracts............	83,476	69,279	89,756
Gross..	**580,555**	**280,410**	**219,030**
Less: collective allowance.......................	(25,320)	(17,999)	(8,548)
Net..	**555,235**	**262,411**	**210,482**

Past due but not impaired

The table shows the gross amount of the Bank's loans and advances to customers that were past due but not impaired by the length of time overdue as at 31 December in each of 2017 and 2016.

	As at 31 December	
	2017	**2016**(1)
	(*AED thousands*)	
Past due up to 30 days.................................	—	3,185
Past due 30-90 days.....................................	—	—
Past due 90-360 days...................................	2,815	—
Past due over 360 days................................	—	2,941

Total..	**2,815**	**6,126**
Fair value of collateral(2)..............................	4,000	10,000

Notes:

(1) Data derived from the 2017 Financial Statements. No figures for 2015 are shown as those were classified differently in the 2016 Financial Statements.

(2) The valuations of the collateral shown in the table above were not up to date in certain cases and may not reflect the true value that could be realised if the collateral were to be enforced. However, management believes that the fair value of the collateral as at 31 December 2017 exceeded the carrying amount of the past due but not impaired loans.

The Bank had negligible past due but not impaired murabaha and estisnaa contracts as at 31 December in each of 2017, 2016 and 2015, which mainly related to real estate finance provided.

Individually impaired

The table shows the gross amount of the Bank's loans and advances to customers that were individually impaired, together with the fair value of the related collateral held by the Bank as security, as at 31 December in each of 2017 and 2016.

	As at 31 December	
	2017	**2016(1)**
	(*AED thousands*)	
Individually impaired	264,982	268,999
Fair value of collateral..........................	(94,119)	(61,260)
	170,863	**207,739**

Note:

(1) Data derived from the 2017 Financial Statements. No figures for 2015 are shown as those were classified differently in the 2016 Financial Statements.

The Bank had AED 6 million of individually impaired murabaha and estisnaa contracts as at 31 December in each of 2017 and 2016 and AED 4 million of individually impaired murabaha and estisnaa contracts as at 31 December 2015. All of these contracts were fully provided for as at each date.

Amounts due from banks

As at 31 December in each of 2017, 2016 and 2015, all of the Bank's amounts due from banks were classified as neither past due nor impaired. The Bank does not make a collective allowance in respect of its amounts due from banks.

LIQUIDITY RISK

The Bank is exposed to liquidity risk through its commitments to advance financing, the payment of its operating expenses and its acquisition of investment securities. The Bank maintains a level of liquidity that allows it to meet cash outflows without having to liquidate its assets. Liquidity risk monitoring is performed by the Bank's management and the Bank uses various tools to measure its liquidity risk including:

- daily liquidity management;

- funding gap projections;

- scenario analysis, including a range of early warning indicators based on internal and external events which are intended to enable the Bank to proactively forecast any impending liquidity issues; and

- liquidity contingency plans, which prescribe action to be taken for the orderly management of liquidity in a stress situation.

On a daily basis and on a longer term basis, the Bank monitors the cash outflows across each of its business lines and balances these against its incoming payments. The Bank's liquidity positions are directly supervised by several layers of employees within the Bank as well as by internal committees and authorities. The liquidity positions are also subject to diversified valuations and analytical methods that are outlined in specific policies and procedures of the Bank. The liquidity positions are reported to the Bank's treasury department on a daily basis, to the asset and liability management committee (the "**ALCO**") on a monthly basis and to the Board on a quarterly basis.

Stress testing is also regularly performed for a range of different scenarios.

A maturity analysis of the Bank's financial assets and liabilities is contained in note 4.4 to each of the Financial Statements. This analysis shows that during the financial year ended 31 December 2017 the Bank had available net liquidity in the up to 12 months timeframe of AED 1.58 billion, in the over 12 months timeframe of AED 756 million and in the unspecified timeframe of AED 345 million.

MARKET RISK

The overall authority for market risk is vested in the ALCO which established limits for each type of risk in aggregate and for portfolios. Management is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

The principal market risks faced by the Bank are:

Price risk

Price risk is the risk that the prices of the equity securities that the Bank holds will fluctuate because of market factors. The Bank is exposed to equity securities price risk because of investments held by the Bank and classified on the statement of financial position either as available for sale or as at FVTPL. To manage its price risk arising from these investments, the Bank diversifies its portfolio in accordance with the limits set by management. Note 4.3 to the 2017 Financial Statements contains a sensitivity analysis that indicates that a 10 per cent. change in the prices of the Bank's portfolio in 2017 would, assuming all other factors remained constant and, where applicable, the Bank's investments moved according to the historical correlation of the relevant index, have had an AED 20 million impact on the Bank's other comprehensive income for 2017.

Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank's management monitors interest rates on a regular basis.

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the income derived from them. The Bank manages this risk principally thorough monitoring interest rate gaps and by matching the re-pricing profile of its assets and liabilities. A portion of the Bank's assets and liabilities are re-priced within three months. Accordingly, there is a limited exposure to interest rate risk in this regard.

The effective interest rate of a monetary financial instrument is the rate that, when applied in a present value calculation of future contractual cash flows, results in the carrying amount of the instrument. The rate is an original effective interest rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating instrument or an instrument carried at fair value.

Note 4.3 to the 2017 Financial Statements contains a table that sets out the Bank's assets and liabilities at their carrying amounts, categorised by the earlier of their contractual repricing or maturity dates. The table shows that the Bank had a greater volume of assets repricing than liabilities in each of the up to three months timeframe (by AED 145 million) and the three to 12 months timeframe (by AED 1.9 billion).

Note 4.3 to the 2017 Financial Statements contains a sensitivity analysis that indicates that a 0.25 per cent. change in EIBOR would, assuming all other factors remained constant, have had an AED 3 million impact on the Bank's net profit for 2017. The sensitivity is based on AED 4.2 billion interest bearing assets and AED 2.4 billion interest bearing liabilities and it does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Bank's functional currency is the dirham. Positions are closely monitored and strategies are used to ensure positions are maintained within established limits.

The Bank's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. As at 31 December 2017, the Bank had net exposures denominated in foreign currencies amounting to AED 269 million.

OPERATIONAL RISK

The Bank's operational risk management system is based on a quantitative and qualitative assessment of risk that complies with the requirements of Basel II. The system is designed to manage and reduce losses from operational risks.

The Bank's operational risk analysis and measurement system is based on:

- an incident management reporting system;
- risk and control self-assessment (RCSA) workshops across each department of the Bank, in which operational risks and effective controls are assessed and examined with the aim of ensuring all business objectives will be met;
- the Bank's procedure for approving new products and processes; and
- a business continuity management system.

The Board oversees the Bank's exposure to operational risk, is responsible for approving each of the Bank's operational risk policies and receives a quarterly report of all operational risk matters affecting the Bank. Management is responsible for the development and implementation of controls to address the Bank's operational risk. This responsibility is supported by the development of overall standards for the management of operational risk.

The Management Risk and Credit Committee and the IT steering committee have approved a general operational risk management system, based on broad principles which focus on understanding the Bank's internal processes. The system consists of performing cause-event-effect analyses to identity the likely causes of any operational risks the Bank may face, taking into account risk profiles and risk tolerance thresholds, and establishing and monitoring responsibility for operational risk.

The Bank's objective is to manage its operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

MANAGEMENT AND EMPLOYEES

MANAGEMENT

The Board

The Board provides guidance and direction to the Bank's management towards achieving the Bank's strategic objectives. The Board is responsible for the direction and oversight of the Bank on behalf of the shareholder. The day to day activities of the Bank are delegated to management.

In line with the EDB Law, each Board member is appointed by the Council of Ministers for a renewable period of three years. The current three-year period ends in June 2019.

The table below shows the current Board members and their date of appointment.

Director	Principal role outside the Bank	Appointment
H.E. Obaid Humaid Al Tayer (Chairman)	Minister of State for Financial Affairs	June 2016
H.E. Younis Haji Khouri (Vice Chairman)	Undersecretary of Ministry of State for Financial Affairs	June 2016
H.E. Abdul Wahed Mohammad Al Fahim	Chairman, Nasdaq Dubai	June 2016
H.E. Walid Khalil Al Hashemi	Director General, Financial Audit Authority, Government of Ajman	June 2016
H.E. Saeed Mohammad Al Bahhar Al Shehhi	Chairman, Arab Insurance Group	June 2016
H.E. Khalfan Jumaa Belhoul	CEO, Dubai Future Foundation	June 2016
H.E. Salama Mohamad Al Dhaheri	Director of Human Resources, Abu Dhabi Investment Council	June 2016
H.E. Mariam Saeed Ghobash	Director, Global Special Situations Department, Abu Dhabi Investment Council	June 2016
H.E Mohammed Abdul Ghaffar Hussain	Managing Director, Green Coast Enterprises	June 2016
H.E. Ahmed Ali Attiga	CEO, Arab Petroleum Investment Corporation	June 2016

The address of each Board member is c/o Emirates Development Bank, P.O. Box 51515, Abu Dhabi, UAE. There are no potential conflicts of interest between the private interests or other duties of the directors listed above and their duties to the Bank.

Board Committees

The Bank has four Board committees:

Board Credit and Investment Committee ("BCIC")

The BCIC oversees the Bank's credit management as well as its investment activities. It reviews proposed priorities and actions and monitors the Bank's credit and investment management framework. The BCIC approves all credit proposals and investment proposals, while continuously reviewing the performance and quality of the Bank's portfolios. The BCIC is also responsible for approving all debt restructuring and write-off cases and all decisions regarding the reclassification of loans or investments.

The current members of the BCIC are H.E. Younis Haji Khouri (Chairman), H.E. Abdul Wahed Mohammad Al Fahim, H.E Mohammed Abdul Ghaffar Hussain, H.E. Khalfan Jumaa Belhoul and H.E. Mariam Saeed Ghobash. The BCIC met 10 times in 2017 and eight times in 2018.

Board Strategy Committee ("BSC")

The role of the BSC is to assist the Board in fulfilling its oversight responsibilities relating to the medium and long-term strategic direction and development of the Bank. The BSC reviews the approved strategy and business plan of the Bank and monitors the Bank's strategic achievements. It identifies obstacles to implementation and makes tactical recommendations to the Board. The BSC also outlines the Bank's asset allocation strategy, investment strategy and governance and regulatory affairs. It conducts regular strategy reviews, providing advice and strategic guidance if required.

The current members of the BSC are H.E Mohammed Abdul Ghaffar Hussain (Chairman), H.E. Abdul Wahed Mohammad Al Fahim, H.E. Mariam Saeed Ghobash, H.E. Khalfan Jumaa Belhoul and H.E. Ahmed Ali Attiga. The BSC met five times in 2017 and six times in 2018.

Board Audit, Risk and Compliance Committee ("BARCC")

The BARCC assists the Board in fulfilling its responsibilities relating to internal control, internal and external audit, financial statements, risk management and compliance. The BARCC oversees the quality and integrity of the accounting, auditing, internal controls and financial reporting practices of the Bank. It sets the criteria and control mechanisms for all activities involving Bank-wide related risks as well as compliance guidelines, anti-money laundering and combating the financing of terrorism policies. The BARCC also ensures that the financial statements and reports comply with applicable rules for federal institutions and banks in the UAE.

The current members of the BARCC are H.E. Walid Khalil Al Hashemi (Chairman), H.E. Saeed Mohammad Al Bahhar Al Shehhi and H.E. Salama Mohamad Al Dhaheri. The BARCC met seven times in 2017 and eight times in 2018.

Board Nomination and Remuneration Committee ("BNRC")

The main responsibilities of the BNRC are remuneration, performance evaluation, recruitment, organisational structure and human resources policies. The BNRC nominates candidates for the Bank's leadership functions, defines performance indicators for the executive management and supervises the evaluation of staff performance. The BNRC also decides on remuneration polices as well as associated benefits and incentives and on the compensation of the Bank's executive management. The BNRC receives a yearly report on the performance of the CEO's direct reports, reviewing their contribution to the Bank's strategy implementation as well as their compliance with the Bank's values and ethics.

The current members of the BNRC are H.E. Mariam Saeed Ghobash (Chairman), H.E. Khalfan Jumaa Belhoul and H.E. Salama Mohamad Al Dhaheri. The BNRC met nine times in 2017 and 11 times in 2018.

EXECUTIVE MANAGEMENT

The following table sets out the names of the current members of the Bank's executive management, their position and the date they joined the Bank:

Name	Position	Date joined
Mr. Ahmed Abdullah	Acting CEO and Chief Risk Officer	August 2014
Mr. Ahmad Yousuf	Head of Treasury & Investment	January 2018
Mr. Samer Babelli	Chief Financial Officer	March 2018

Name	Position	Date joined
Mr. Hakam Abu-Zarour	Acting COO and Chief Information Officer	June 2014
Mr. Fadi Amireh	Director of Business Finance	October 2017
Mr. Naoufal Rahhouti	Director of Strategic & Project Management	November 2017
Mr. Tanu Goel	Chief Internal Audit Officer	July 2017
Mr. Ahmed Hussein Zekry Hussein	Head of Legal & Compliance, and Board Secretary	December 2017

The address of each of the members of the executive management is c/o Emirates Development Bank, P.O. Box 51515, Abu Dhabi, UAE. There are no potential conflicts of interest between the private interests or other duties of the executive management listed above and their duties to the Bank.

Detailed below is brief biographical information on the members of the executive management:

Mr. Ahmed Abdullah, Acting Chief Executive Officer and Chief Risk Officer

Ahmed joined the Bank in August 2014 as its Chief Risk Officer and was appointed as Acting Chief Executive Officer in November 2018. He has 24 years' experience in commercial and Islamic banking.

Before he joined the Bank, Ahmed was general manager risk and chief risk officer at Nizwa Bank in Muscat, Oman between August 2012 and August 2014. Prior to that, he was deputy chief executive officer and chief risk officer at Jordan Dubai Islamic Bank in Amman, Jordan between May 2010 and August 2012 and before that he was chief risk officer at Gumhouria Bank in Tripoli, Libya between July 2008 and May 2010. Ahmed started his career with Arab Bank Group in Amman, Jordan, where he worked in multiple roles between July 1993 and July 2008, the last of which was as vice president, head of credit risk management.

Ahmed has a Master's degree in Risk Management, Operations and Regulations from the University of Reading in the United Kingdom and a Bachelor's degree in Finance and Banking from the University of Wales in the United Kingdom. Ahmed is also a Certified Professional Risk Manager by The Professional Risk Managers' International Association and a Certified Financial Risk Manager by the Global Association of Risk Professionals.

Mr. Ahmad Yousuf, Head of Treasury & Investment

Ahmad is the Bank's Head of Treasury & Investment. In this role, he manages the Bank's treasury department, is accountable for revenue growth, is responsible for asset and liability management (including liquidity risk) and manages portfolio development.

Ahmad joined the Bank in January 2018 and brings to his role more than 16 years' leadership and management experience in the banking industry, especially in treasury and capital markets. Prior to joining the Bank, Ahmad served as Head of Investment Solutions – Treasury at Noor Bank from 2015 to 2017; as Senior Manager FX and Sales at Noor Bank from 2007 – 2017; as Corporate dealer / manager at Dubai Islamic Bank from 2004 to 2007; and as Collection Officer and Dealer in Treasury at Standard Chartered Bank from 2003 – 2004.

In his last role with Noor Bank, Ahmad was also responsible for business performance and client relationships across various departments, including Wealth Management and Corporate Banking.

Ahmad is a UAE national and graduated from the Higher College of Technology-UAE with a degree in finance.

Mr. Samer Babelli, Chief Financial Officer

Samer joined the Bank in March 2018 as its Chief Financial Officer. He has 20 years' experience in management.

Before he joined the Bank, Samer was vice president, head of financial accounting at Dubai Islamic Bank in the UAE between October 2011 and February 2018. Prior to that, he was assistant general manager - chief financial officer at Syria Gulf Bank in Syria between March 2007 and October 2011 and before that he was chief financial officer at the Fund for Integrated Rural Development of Syria in Syria between November 2005 and March 2007. Samer was also assistant financial controller – Gulf region for American Life Insurance Company in the UAE between March 2005 and October 2005, supervisor – financial services division for PricewaterhouseCoopers in the UAE between October 2003 and March 2005 and senior auditor at Deloitte & Touche in Saudi Arabia between January 1999 and October 2003.

Samer has a Master of Business Administration (MBA) from the University of Manchester in the United Kingdom and a Bachelor's degree in Business Administration from the Lebanese American University in Lebanon. Samer is also a Certified Public Accountant, a member of the American Institute of Certified Public Accountants and a Chartered Global Management Accountant.

Mr. Hakam Abu-Zarour, Acting Chief Operating Officer and Chief Information Officer

Hakam joined the Bank in June 2014 as its Acting Chief Operating Officer/Chief Information Officer and Head of Banking Operations. He has 29 years' experience in IT management, business, technical and back-office operations in the financial services industry.

Before he joined the Bank, Hakam was group chief information officer at Global Investment House in Kuwait between July 2006 and June 2014. Prior to that, he was chief information officer/general manager - head of IT at Saudi Hollandi Bank in Saudi Arabia between August 2000 and July 2006. Hakam worked in Australia between May 1995 and June 2000 as a principal consultant with Praxa Limited (September 1997 to June 2000), a senior project manager with AMP (November 1996 to September 1997) and a project manager with CyberSoft Corporation (May 1996 to November 1996). Hakam started his career with Sakhr Software Co., where he worked as an IT manager in Kuwait and Egypt between January 1989 and May 1995.

Hakam has a Master's degree in Computing – Information Technology from the University of Western Sydney in Australia and a Bachelor's degree in Computer Science from the University of Jordan in Jordan. Hakam has a Six Sigma Black Belt Certification from the Harrington Institute in Dubai.

Mr. Fadi Amireh, Director of Business Finance

Fadi joined the Bank in October 2017 as its Director of Business Finance. He has over 14 years' banking experience, including in project finance and SMEs. Fadi has previously managed projects and businesses in different areas, launched SME businesses in three banks and been associated with large international banks including HSBC, Standard Chartered Bank, Arab Bank and Capital Bank.

As Director of Business Finance at the Bank, Fadi uses his experience in the SME industry to lead both the SMEs & Commercial Banking and Mohammed Bin Rashid Innovation Fund offerings of the Bank. Fadi is responsible for managing the Bank's business team to provide an attractive value proposition for SMEs in the UAE and also for managing business initiatives at the Bank from conception to deployment.

Fadi holds a Master of Business Administration degree from New York Institute of Technology in the USA, and a Bachelor of Business Administration degree from Yarmouk University in Jordan.

Mr. Naoufal Rahhouti, Director of Strategic & Project Management

Naoufal joined the Bank in November 2017 as its Director of Strategic & Project Management. He has over 16 years' regional and international experience in banking, public services and management consulting. Before he joined the Bank, Naoufal was vice president of corporate development and secretary to the executive committee at Dubai International Financial Centre Authority since January 2016.

Naoufal previously held various positions in strategy and operations for leading banking groups in the region and globally, including Abu Dhabi Commercial Bank and BNP Paribas. Naoufal also served in business consulting from 2005 to 2010 at BearingPoint and Accenture, for prominent clients in financial services and governments. Naoufal worked at General Electric in 2004 on medical systems as part of his graduate programme, and started his professional career at THALES in 2002 working on e-transactions and secured operations.

Naoufal holds a Master's degree in Industrial Systems Engineering from Ecole Centrale Paris in France, and a postgraduate degree in Organization Management from the University of Paris 1 Pantheon-Sorbonne in France, majoring in Finance. Naoufal is a member of the French Society of Engineers and Scientists (IESF), a certified Lean Six Sigma Black Belt from Accenture – George Group and holds a certificate in Strategically Leading Digitization from Informa institute in Dubai.

Mr. Tanu Goel, Chief Internal Audit Officer

Tanu joined the Bank in July 2017 as its Chief Internal Audit Officer. Tanu has 22 years' experience in the field of audit, of which approximately 17 years were with regional financial institutions and approximately five years were with audit firms.

Before he joined the Bank, Tanu was general manager – internal audit for Ahli United Bank in Kuwait since 2006. Prior to that, he was an audit manager in Ahli United Bank in Bahrain from 2001 to 2006. Tanu has also worked with KPMG in Oman from November 1998 until October 2001.

Tanu has a Bachelor's degree and is a Chartered Accountant and a Cost & Works Accountant. In addition, he holds a number of professional certifications from US and UK bodies.

Mr. Ahmed Hussein Zekry Hussein, Head of Legal & Compliance, and Board Secretary

Ahmed joined the Bank in July 2017 as its Head of Legal & Compliance and Board Secretary. He has more than 13 years' experience in corporate law, litigation, negotiations, consumer rights, legal research, administrative law, real estate and property management.

Ahmed is a qualified accredited compliance officer and analyst; he has experience in supporting companies to comply with state and federal disclosure reporting requirements. He is responsible for undertaking legal analysis within the Bank including understanding its system implementation and documentation to ensure these are comprehensive, efficient and comply with ethical and legal business conduct. Ahmed collaborates with the Bank's other functional areas to minimise risks by evaluating, investigating and resolving compliance issues and concerns.

Before he joined the Bank, Ahmed worked as a legal manager at different banks including Mashreq Bank PSC, UAE, Ahli Bank QSC, Qatar and Commercial International Bank, Egypt.

Ahmed holds an LLB degree from Cairo University and a Master's degree in international business law from the University of Liverpool, UK.

MANAGEMENT COMMITTEES

The Bank has four principal management committees.

Management Committee ("*MANCOM*")

The MANCOM is responsible for the overall activities of the Bank. It has a wide range of responsibilities and plays a critical role in decision-making across all key functions. MANCOM advises the Board on the strategic direction and planning of the Bank, oversees the implementation of the strategy and reports on progress. It also ensures that all activities are aligned with the Bank's vision and mission, while supporting its values and ethics. MANCOM has financial oversight of the Bank, aiming to ensure effective financial performance and management of financial resources. MANCOM also supervises the Bank's IT and HR functions.

The members of MANCOM are the Chief Executive Officer (Chairman), the Chief Financial Officer, the Chief Operating Officer, the Chief Risk Officer, the Director of Strategy & Project Management (Secretary), the Director of Business Finance, the Director of Home Finance, the Head of Treasury & Investment, the Acting Director of HR, the Head of Legal & Compliance and the Marketing & Communications Manager. The Chief Internal Audit Officer attends the meetings as a non-voting member.

Management Risk and Credit Committee ("*MRCC*")

The MRCC oversees the Bank's risk management as well as its credit and investment activities. It reviews proposed priorities and actions and monitors the Bank's risk management framework, risk appetite statement and risk profile. The MRCC approves all credit proposals and investment proposals and reviews the performance and quality of the Bank's portfolios. The MRCC is also responsible for approving all debt restructuring and write-off cases and for all decisions regarding the reclassification of loans or investments. In the field of home finance, it recommends partnerships with housing programmes and credit parameters for new products.

The members of the MRCC are the Chief Executive Officer (Chairman), the Chief Financial Officer, the Chief Risk Officer (Vice Chairman), the Director of Strategy & Project Management, the Director of Business Finance, the Director of Home Finance and the Head of Treasury & Investments. The Chief Internal Audit Officer attends the meetings as a non-voting member.

Asset and Liability Committee ("*ALCO*")

The ALCO is responsible for monitoring compliance with the Bank's asset/liability framework and the Bank's exposure to financial risks. It reviews macro-economic and micro-economic information and implements effective processes for interest rate risk, liquidity risk and market risk management, adopting relevant policies and risk limits if required. The ALCO also ensures compliance with treasury limits and ratios approved by the Board, the Central Bank or senior management. The ALCO recommends corrective action to the BCIC overseeing asset/liability management.

The members of the ALCO are the Chief Executive Officer (Chairman), Chief Financial Officer (Vice Chairman), the Chief Risk Officer, the Director of Strategy & Project Management, the Director of Treasury & Investment, the Director of Business Finance and the Director of Home Finance. The Chief Internal Audit Officer attends the meetings as a non-voting invitee.

Management Procurement Committee ("*MPC*")

The MPC oversees the implementation of the Bank's procurement policies and processes within the procurement framework, ensuring that they are fit for purpose and compatible with national regulations. It ensures consistent and correct application of the policies and processes, while also issuing opinions and recommendations on best practice. The MPC is also responsible for determining whether procurement is the most appropriate option, overseeing the decision on the method of procurement, and assessing exemptions to the application of the procedures set out in the procurement policies and processes.

The members of the MPC are the Chief Financial Officer (Chairman), the Director of Treasury & Investments (Vice Chairman), the Chief Operating Officer, the Director of Strategic & Project Management, the Head of Legal & Compliance, the Administration Senior Manager and the Accounting Manager. The Chief Internal Audit Officer may attend the meetings as a non-voting invitee.

EMPLOYEES

As at 31 December 2018, the Bank had 87 full time staff. The percentage of UAE nationals (as a percentage of total Bank full time staff) was 40 per cent as at 31 December 2018.

The Bank offers its employees a range of benefits (subject to standard eligibility criteria) including child education allowance, annual ticket allowance, medical and life insurance, as well as pension contribution for UAE and GCC nationals.

The Bank is committed to the development of its employees and has developed a robust framework to facilitate this process. The Bank employs various training and development initiatives and provides a number of training programmes, including:

- development programmes for technical and soft skills, based on employees' needs (involving public training courses, in-house training and blended learning (a hybrid teaching approach comprising online educational materials and traditional place-based education));
- development programmes for executives;
- emiratisation initiatives; a "Tatweer" programme to develop and retain talented UAE nationals, thus contributing towards the UAE's nationalisation strategy; and
- other initiatives such as employee engagement workshops and knowledge-sharing workshops.

OVERVIEW OF THE UNITED ARAB EMIRATES

The UAE

The UAE is a federation of seven Emirates. Formerly known as the Trucial States, they were a British protectorate until they achieved independence in December 1971 and merged to form the United Arab Emirates. Each Emirate has a local government headed by the Ruler of the Emirate. There is a federal government which is headed by the President. The federal budget is principally funded by Abu Dhabi.

The federation is governed by the Supreme Council of the Rulers which consists of the Rulers of the seven Emirates. The Supreme Council elects from its own membership the President and the Vice President (for renewable five-year terms). H.H. Sheikh Zayed bin Sultan Al Nahyan, the late Ruler of Abu Dhabi, held the position of President from 1971 until his death in November 2004. During his long presidency, H.H. Sheikh Zayed bin Sultan Al Nahyan oversaw massive investment in the infrastructure of the UAE, which transformed the country. Following his death, his son H.H. Sheikh Khalifa bin Zayed Al Nahyan took over as Ruler of Abu Dhabi and has been elected as President of the UAE.

According to OPEC data, as at 31 December 2017, the UAE had approximately 6.6 per cent. of the world's proven crude oil reserves (giving it the sixth largest oil reserves in the world). According to preliminary data produced by the FCSA crude oil and natural gas accounted for 21.5 per cent. of the UAE's real GDP in 2017 and according to data produced by the Central Bank crude oil and natural gas accounted for 32.0 per cent. of the total value of the UAE's exports in 2016.

Based on IMF data (extracted from the World Economic Outlook (October 2018)), real GDP growth in the UAE increased by 5.1 per cent. in 2015, 3.0 per cent. in 2016 and 0.8 per cent. in 2017. The IMF estimates that real GDP growth in the UAE will have increased by 2.9 per cent. in 2018.

On 19 September 2018, Moody's Singapore affirmed the UAE's long-term credit rating of Aa2 (with a 'stable' outlook). The principal reason cited for this high investment grade rating is the assumption that the obligations of the UAE Government will be fully supported by the Government of Abu Dhabi and the Government of Abu Dhabi's strong balance sheet. The UAE is not rated by any other rating agency.

The MSCI Emerging Markets Index classifies the UAE as an "emerging market" economy (compared to the previous classification of "frontier market") with nine UAE companies (including the Dubai Financial Market and the ADX) included on the benchmark index.

International Relations

The foreign policy of the UAE is based upon a set of guiding principles, laid down by the country's first President, H.H. Sheikh Zayed bin Sultan Al Nahyan.

The UAE participates in a number of multilateral aid-giving institutions, including the International Bank for Reconstruction and Development, the International Development Agency, the IMF and regional bodies like the Arab Bank for Economic Development in Africa, the Arab Gulf Fund for the United Nations, the Abu Dhabi-based Arab Monetary Fund, the Islamic Development Bank and the OPEC Fund for International Development. In addition, the UAE is a member of various other international organisations, including, among others, the Asia-Pacific Economic Co-operation, the GCC, the International Organisation for Industrial Development, the League of Arab States, OPEC, the Organisation of Arab Petroleum Exporting Countries, the Organisation of Islamic Countries, the United Nations, the World Health Organisation and the World Trade Organisation. The UAE has also entered into a number of bilateral agreements with other countries (such as the UAE's bilateral agreement with the United States for peaceful nuclear co-operation which establishes the legal framework for commerce in civilian nuclear energy between the two countries).

The UAE generally enjoys good relations with the other states in the GCC. However, on 5 June 2017, the Kingdom of Saudi Arabia, the UAE and the Kingdom of Bahrain announced that they would be severing diplomatic relations with the State of Qatar, citing Qatar's alleged support for terrorism and the Qatari violation of a 2014 agreement with the other members of the GCC. The termination of diplomatic relations has included the withdrawal of ambassadors, the imposition of trade and travel bans and the closure of airspace, territorial waters and, in the case of Saudi Arabia only, the closure of its land border with Qatar. Qatari nationals were given 48 hours to leave Saudi Arabia, the UAE and Bahrain, and these countries' nationals were given 14 days to leave Qatar. As at the date of this Base Prospectus, there has been no further material update.

Additionally, the UAE has an ongoing dispute with the Islamic Republic of Iran and continuing discussions with the Kingdom of Saudi Arabia over border issues. Since 1971, the three Gulf islands of Abu Musa and Greater and Lesser Tunb have been occupied by the Islamic Republic of Iran. The UAE believes that the islands should be returned to the Emirate of Sharjah and the Emirate of Ras al Khaimah (with the Emirate of Sharjah claiming sovereignty over Abu Musa and the Emirate of Ras al Khaimah claiming sovereignty over Greater and Lesser Tunb) and is seeking to resolve the dispute through negotiation.

The UAE is also seeking, through negotiation, to resolve issues related to the 1974 provisional and, as yet, unratified agreement with the Kingdom of Saudi Arabia on the border between the two countries, which the UAE believes should be substantially amended. In addition, the UAE is involved in discussions with the governments of the Kingdom of Saudi Arabia and the State of Qatar relating to a maritime corridor which the State of Qatar has purported to grant to the Kingdom of Saudi Arabia, from within the State of Qatar's own maritime waters, which crosses part of the route of the gas pipeline constructed by Dolphin Energy Limited. The UAE believes that this grant is in breach of existing agreements between the UAE and the State of Qatar and, in June 2009, the UAE's Ministry of Foreign Affairs stated this position in a letter to the United Nations Secretary General.

The UAE, along with other Arab states, is currently participating in the Saudi Arabian led military intervention in the Republic of Yemen which began in 2015 in response to requests for assistance from the Yemeni government. The UAE is also a member of another Saudi Arabian led military coalition formed in December 2015 to combat Islamic extremism and, in particular, Islamic State (also known as Daesh, ISIS or ISIL).

TAXATION

The following is a general description of certain United Arab Emirates, United States and EU tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

United Arab Emirates Taxation

The following summary of the anticipated tax treatment in the UAE in relation to payments on the Notes is based on the taxation law and practice in force at the date of this Base Prospectus and does not constitute legal or tax advice and prospective investors should be aware that the relevant fiscal rules and practice and their interpretation may change. Prospective investors should consult their own professional advisers on the implications of subscribing for, buying, holding, selling, redeeming or disposing of Notes and the receipt of any payments with respect to such Notes under the laws of the jurisdictions in which they may be liable to taxation.

There is currently in force in the UAE legislation establishing a general corporate taxation regime. The regime is, however, not enforced save in respect of companies active in the hydrocarbon industry, some related service industries and branches of foreign banks operating in the UAE. It is not known whether the legislation will or will not be enforced more generally or within other industry sectors in the future. Under current legislation, there is no requirement for withholding or deduction for or on account of UAE taxation in respect of payments of interest and principal to any holder of the Notes. In the event of such imposition of any such withholding, the Bank has undertaken to gross-up any payments subject to certain limited exceptions.

The Constitution of the UAE specifically reserves to the UAE government the right to raise taxes on a federal basis for the purposes of funding its budget. It is not known whether this right will be exercised in the future.

The UAE has entered into double taxation arrangements with certain other countries, but these are not extensive in number.

FATCA

Pursuant to certain provisions of FATCA, a "**foreign financial institution**" (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Bank is a foreign financial institution for these purposes. A number of jurisdictions (including the UAE) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Notes issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date. However, if additional Notes (as described under "*Terms and Conditions of the Notes—Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Noteholders should consult their own tax advisers regarding how these rules may apply to their investment in Notes.

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including: (i) by transacting with a person established in a participating Member State; or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Bank to any one or more of the Dealers. The arrangements under which Notes may from time to time be agreed to be sold by the Bank to, and purchased by, Dealers are set out in a dealer agreement dated 18 February 2019 (the "**Dealer Agreement**") and made between, amongst others, the Bank and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Bank in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

General

Each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake, that it has (to the best of its knowledge and belief) complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Base Prospectus, any Final Terms or any related offering material, in all cases at its own expense. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Bank and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Base Prospectus, any Final Terms or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph above.

Selling restrictions may be supplemented or modified with the agreement of the Bank. Any such supplement or modification may be set out in a supplementary prospectus.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Bank and the relevant Dealer shall agree and as shall be set out in the applicable subscription agreement, Dealer accession letter or a Dealer confirmation, as the case may be.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Dealers or such affiliate on behalf of the Bank in such jurisdiction.

Dubai International Financial Centre

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Notes to be issued under the Programme to any person in the Dubai International Financial Centre unless such offer is:

(a) an "**Exempt Offer**" in accordance with the Markets Rules (MKT) Module of the DFSA rulebook; and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module of the DFSA rulebook.

Prohibition of Sale to EEA Retail Investors

Unless the applicable Final Terms in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the applicable Final Terms in relation thereto to any retail investor in the EEA. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in the Prospectus Directive; and

(b) the expression an "**an offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

European Economic Area

In relation to each Member State of the European Economic Area (each, a "**Relevant Member State**"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) ***Qualified investors*:** at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) ***Fewer than 150 offerees***: at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Bank for any such offer; or

(c) ***Other exempt offers***: at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Bank or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended or superseded), and includes any relevant implementing measure in the Relevant Member State.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**"), other than: (i) to "**professional investors**" within the meaning of the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C**(**WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "**professional investors**" as defined in the SFO and any rules made under the SFO.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the "**FIEA**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Kingdom of Bahrain

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, any Notes except on a private placement basis to persons in the Kingdom of Bahrain who are "accredited investors".

For this purpose, an "**accredited investor**" means:

(a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more (excluding that person's principal place of residence);

(b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Notes. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Notes pursuant to an offering should note that the offer of Notes is a private placement under Article 9 or Article 10 of the "Rules on the Offer of Securities and Continuing Obligations" as issued by the Board of the Saudi Arabian Capital Market Authority pursuant to resolution number 3-123-2017 dated 27 December 2017 (the "**KSA Regulations**"), through a person authorised by the Capital Market Authority to carry on the securities activity of arranging and following a notification to the Capital Market Authority under the KSA Regulations.

The Notes may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "Sophisticated Investors" under Article 9 of the KSA Regulations or by way of a limited offer under Article 10 of the KSA Regulations. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Notes by it to a Saudi Investor will be made in compliance with the KSA Regulations.

Each offer of Notes shall not therefore constitute a "public offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 15 of the KSA Regulations. Any Saudi Investor who has acquired Notes pursuant to a private placement under Article 9 or Article 10 of the KSA Regulations may not offer or sell those Notes to any person unless the offer or sale is made through an authorised person appropriately licensed by the CMA and: (a) the Notes are offered or sold to a Sophisticated Investor (as defined in Article 9 of the KSA Regulations); (b) the price to be paid for the

Notes in any one transaction is equal to or exceeds Saudi Riyals 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 15 of the KSA Regulations.

Malaysia

This Base Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia (the "**SC**") under the Capital Markets and Services Act 2007 of Malaysia (the "**CMSA**").

Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes have not been and will not be offered, sold or delivered, and no invitation to subscribe for or purchase the Notes has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 or Section 229(1)(b) and Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3), read together with Schedule 9 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the SC and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Notes. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Dealers is responsible for any invitation, offer, sale or purchase of the Notes as aforesaid without the necessary approvals being in place.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed that, and each further Dealer appointed under the Programme will be required to represent and agree that, it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(a) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(b) where no consideration is or will be given for the transfer; or

(c) where the transfer is by operation of law; or

(d) as specified in Section 276(7) of the SFA; or

(e) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

State of Qatar (including Qatar Financial Centre)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, delivered or sold, and will not offer, deliver or sell at any time, directly or indirectly, any Notes in the State of Qatar (including the Qatar Financial Centre), except: (a) in compliance with all applicable laws and regulations of the State of Qatar (including the Qatar Financial Centre); and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar (including the Qatar Financial Centre). This Base Prospectus has not been reviewed or approved by the Qatar Central Bank, the Qatar Stock Exchange, the Qatar Financial Centre Regulatory Authority or the Qatar Financial Markets Authority and is only intended for specific recipients, in compliance with the foregoing.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes to be issued under the Programme have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

United Kingdom

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(a) in relation to any Notes which have a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000, as amended (the "**FSMA**") by the Bank;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA would not, if the Bank was not an authorised person, apply to the Bank; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

United States of America

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code of 1986, as amended, and Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA rules are not applicable.

Each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes: (i) as part of their distribution at any time; or (ii) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Fiscal Agent or the Bank by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Fiscal Agent or the Bank shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, except in accordance with Regulation S or pursuant to an available exemption from registration under the Securities Act, and such Dealer will have sent to each dealer to which it sells Notes during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Terms used in this paragraph have the meanings given to them by Regulation S.

GENERAL INFORMATION

Authorisation

The establishment of the Programme was authorised by resolutions of the Board of Directors of the Bank passed on 14 February 2018, 18 July 2018 and 12 September 2018. The Bank has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

Listing of Notes

Application has been made to the DFSA for the Notes issued under the Programme to be admitted to the DFSA Official List and to Nasdaq Dubai for such Notes to be admitted to trading on Nasdaq Dubai.

Legal and Arbitration Proceedings

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Bank is aware) which may have, or have had during the twelve months prior to the date of this Base Prospectus, a significant effect on the financial position or profitability of the Bank and its Subsidiaries.

Significant/Material Change

Since 31 December 2017 there has been no material adverse change in the prospects of the Bank or the Bank and its Subsidiaries and, since 30 September 2018, there has not been any significant change in the financial or trading position of the Bank and its Subsidiaries.

Auditors

The current auditors of the Bank are KPMG Lower Gulf Limited ("**KPMG**") (authorised and regulated under the Register of Practicing Accountants at the UAE Ministry of Economy and Planning as required by UAE Federal Law No. 22 of 1995) of Level 19, Nation Tower 2, Abu Dhabi Corniche, Abu Dhabi, United Arab Emirates, who have reviewed the condensed consolidated interim financial statements of the Bank for the nine-month period ended 30 September 2018.

The consolidated financial statements of Emirates Development Bank P.J.S.C. as at and for the years ended 31 December 2017 and 2016, have been audited by KPMG LLP, independent auditors, as stated in their reports appearing herein.

With respect to the unaudited condensed consolidated financial information for the nine-month period ended 30 September 2018, included herein, the independent auditors have reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included herein states that they did not audit and they do not express an opinion on that interim financial information.

KPMG is a member of the KPMG network of independent member firms affiliated with KPMG International Cooperative. KPMG is regulated in the UAE by the UAE Ministry of Economy which has issued KPMG with a license to practise as auditors. There is no professional institute of auditors in the UAE and, accordingly, KPMG is not a member of a professional body in the UAE. All of KPMG's audit professionals and partners are members of the institutes from where they received their professional qualification.

Documents on Display

Copies of the following documents may be inspected during normal business hours at the specified offices of the Paying Agent for twelve months from the date of this Base Prospectus:

(a) the memorandum and articles of association of the Bank (together with direct and accurate English translations thereof);

(b) the condensed consolidated interim financial statements of the Bank for the nine-month period ended 30 September 2018;

(c) the audited consolidated financial statements of Emirates Development Bank P.J.S.C. for the years ended 31 December 2016 and 31 December 2017, in each case together with the audit reports prepared in connection therewith;

(d) the Agency Agreement;

(e) the Deed of Covenant;

(f) the Programme Manual (which contains the forms of the Notes in global and definitive form);

(g) a copy of this Base Prospectus; and

(h) any future supplementary prospectus including Final Terms and any other documents incorporated herein or therein by reference.

Material Contracts

Neither the Bank nor any of its Subsidiaries has entered into any material contracts outside the ordinary course of business which could result in its being under an obligation or entitlement which is, or may be, material to the ability of the Bank to meet its obligations in respect of the Notes.

Clearing of the Notes

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective accountholders.

Euroclear and Clearstream, Luxembourg provide various services, including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Tranche will be specified in the applicable Final Terms (or, as applicable, the relevant Pricing Supplement).

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for Determining Price and Yield

The price and amount of Notes to be issued under the Programme will be determined by the Bank and each relevant Dealer at the time of issue in accordance with prevailing market conditions. In the case of different Tranches of a Series of Notes, the issue price may include accrued interest in respect of the period from the interest commencement date of the relevant Tranche (which may be the issue date of the first Tranche of the Series or, if interest payment dates have already passed, the most recent interest payment date in respect of the Series) to the issue date of the relevant Tranche.

The yield of each Tranche of Notes will be calculated on an annual or semi-annual basis using the relevant issue price at the relevant issue date. It is not an indication of future yield.

Dealers transacting with the Bank and its Subsidiaries

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Bank and its Subsidiaries in the ordinary course of business for which they have received, and for which they may in the future receive, fees.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Bank or the Bank's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Bank routinely hedge their credit exposure to the Bank consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

In connection with an offering of Notes issued under the Programme, each Dealer and/or its affiliate(s) may act as an investor for its own account and may take up Notes in the offering and in that capacity may retain, purchase or sell for its own account such Notes and any securities of the Trustee or related investments and may offer or sell such securities or other investments otherwise than in connection with an offering. Accordingly, references herein to the Notes being offered should be read as including any offering of the Notes to the Dealers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

INDEX OF FINANCIAL STATEMENTS

Emirates Development Bank

Condensed consolidated interim financial statements

30 September 2018

Principal business address:
P.O. Box 51515
Abu Dhabi
United Arab Emirates

Emirates Development Bank

Condensed Consolidated Interim Financial Statements

Contents | ***Page***

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Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

To the Shareholder of Emirates Development Bank

Introduction

We have reviewed the accompanying 30 September 2018 condensed consolidated interim financial information for Emirates Development Bank (the "Bank"), which comprises:

- the condensed consolidated interim statement of financial position as at 30 September 2018;
- the condensed consolidated interim statement of profit or loss and other comprehensive income for the three-month and nine-month periods ended 30 September 2018;
- the condensed consolidated interim statement of changes in equity for the nine-month period ended 30 September 2018;
- the condensed consolidated interim statement of cash flows for the nine-month period ended 30 September 2018; and
- notes to the condensed consolidated interim financial information.

Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.* A review of condensed consolidated 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 consolidated interim financial information as at 30 September 2018 are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting.*

Emphasis of a Matter

We draw attention to Article No. 6 of the Federal law Decree No. 7 issued on 18 September 2011 which requires the paid up capital of the Bank to be AED 5 billion. The Bank is not in compliance with the Article as at 30 September 2018. Our conclusion is not modified in this regard.

KPMG Lower Gulf Limited

Emilio Pera
Registration No: 1146
Abu Dhabi, United Arab Emirates
Date: 13 NOV 2018

Emirates Development Bank

Condensed Consolidated Interim Statement of Financial Position

As at

	Note	*(Unaudited)* 30 September 18 AED'000	*(Audited)* 31 December 17 AED'000
Assets			
Cash and balances with the UAE Central Bank		**857,257**	238,188
Due from banks	*5*	**2,438,229**	3,653,455
Loans and advances	*6*	**967,934**	578,683
Murabaha, Ijarah and Estisnaa contracts	*7*	**263,833**	83,476
Investment securities	*8*	**728,899**	569,630
Investment property	*9*	**554,000**	571,720
Property and equipment		**55,416**	63,467
Other assets		**32,575**	27,973
Total assets		**5,898,143**	5,786,592
Liabilities			
Deposits and funds from governmental institutions	*10*	**1,949,548**	2,374,794
Other liabilities		**153,929**	70,052
Total liabilities		**2,103,477**	2,444,846
Shareholders' equity			
Paid up capital	*11*	**2,621,996**	2,195,996
Other reserves	*12*	**570,064**	570,064
Retained earnings		**529,610**	501,705
Fair value reserve		**72,996**	73,981
Total shareholders' equity		**3,794,666**	3,341,746
Total liabilities and shareholders' equity		**5,898,143**	5,786,592

H.E. Obaid Humaid Al Tayer
Chairman

Mr. Haytham Yousef Kamhiyah
Chief Executive Officer

Mr. Samer Babelli
Chief Financial Officer

The notes on pages 6 to 25 form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

for the period ended

	Note	Nine month period ended		Three month period ended	
		(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
		30 September 18	30 September 17	**30 September 18**	30 September 17
		AED'000	AED'000	**AED'000**	AED'000
Income					
Interest income	*13*	**101,612**	95,754	**36,059**	30,629
Interest expense		**(30,578)**	(27,521)	**(9,088)**	(9,068)
Net interest income		**71,034**	68,233	**26,971**	21,561
Profit from Murabaha, Ijarah and Estisnaa		**4,468**	1,287	**1,995**	391
Net interest income and income from Islamic Financing		**75,502**	69,520	**28,966**	21,952
Investment income	*16*	**15,754**	20,515	**2,850**	1,049
Fees and commission income		**9,055**	7,509	**3,305**	2,424
Other income		**13,812**	15,876	**5,217**	4,905
Total operating income		**114,123**	113,420	**40,338**	30,330
Expenses					
Salaries and employee benefits		**(34,336)**	(25,457)	**(11,518)**	(10,000)
Depreciation		**(6,463)**	(8,756)	**(2,020)**	(2,885)
Operating and administrative expenses		**(17,043)**	(9,563)	**(4,488)**	(2,969)
Impairment charge		**(5,195)**	(17,214)	**(2,157)**	(1,830)
Profit before revaluation of investment property and financial investments		**51,086**	52,430	**20,155**	12,646
Loss on revaluation of investment property and financial investments		**(21,708)**	(19,380)	**1,378**	-
Profit for the period		**29,378**	33,050	**21,533**	12,646
Other comprehensive income					
Items that will not be reclassified to profit or loss					
(Decrease) / Increase in financial investments at FVOCI		**(2,458)**	5,904	**3,743**	11,735
Total comprehensive income for the period		**26,920**	38,954	**25,276**	24,381

The notes on pages 6 to 25 form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated interim Statement of Changes in Equity

for the nine month period ended

	Paid up Capital AED'000	Special reserve AED'000	Proposed capital increase AED'000	Retained earning AED'000	Fair value Reserve AED'000	Total AED'000
Balance at 1 January 2017	2,195,996	555,464	-	466,515	72,905	3,290,880
Profit for the period	-	-	-	33,050	-	33,050
Net change in fair value of available-for-sale financial assets	-	-	-	-	5,904	5,904
Total comprehensive income for the period	-	-	-	33,050	5,904	38,954
At 30 September 2017 *(Unaudited)*	**2,195,996**	**555,464**	**-**	**499,565**	**78,809**	**3,329,834**
Balance at 31 December 2017	2,195,996	559,375	10,689	501,705	73,981	3,341,746
Cumulative effect of adopting IFRS 9 *(Note 19)*	-	-	-	(1,473)	1,473	-
Balance at 1 January 2018	2,195,996	559,375	10,689	500,232	75,454	3,341,746
Increase in paid up capital	426,000	-	-	-	-	426,000
Profit for the period	-	-	-	29,378	-	29,378
Net change in fair value of -Financial investments at fair value through other comprehensive income	-	-	-	-	(2,458)	(2,458)
Total comprehensive income for the period	426,000	-	-	29,378	(2,458)	452,920
At 30 September 2018 *(Unaudited)*	**2,621,996**	**559,375**	**10,689**	**529,610**	**72,996**	**3,794,666**

The notes on pages 6 to 25 form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Cash Flows

for the nine month period ended

	(Unaudited) **30 September 18** **AED'000**	*(Unaudited)* 30 September 17 AED'000
Cash flow from operating activities		
Profit for the period	**29,378**	33,050
Adjustments for:		
Depreciation	**6,463**	8,756
Dividends income	**(16,018)**	(18,921)
Fair value loss / (gain) on financial investments – FVTPL	**4,252**	(1,584)
Provision for impairment	**5,195**	17,214
Provision for employees' end of service benefits	**708**	412
Fair value loss on investment properties	**17,720**	19,370
Operating cash flow before changes in working capital	**47,698**	58,297
Changes in working capital:		
Due from banks and investment companies maturing after three months	**(705,000)**	(1,392,000)
Deposits and funds from governmental institutions	**(425,246)**	(383,239)
Loans and advances	**(394,446)**	(177,804)
Murabaha and Estisnaa contracts	**(180,357)**	15,982
Other assets	**(4,385)**	(26,996)
Other liabilities	**83,241**	5,897
Employee benefits paid	**(72)**	-
Net cash used in operating activities	**(1,578,567)**	(1,899,863)
Cash flow from investing activities		
Disposal / (purchase) of property and equipment	**1,588**	(403)
Dividends received	**15,801**	14,826
Movement in investment securities balances, net	**(165,979)**	(4,301)
Net cash used in investing activities	**(148,590)**	10,122
Cash flow from financing activities		-
Increase in paid up capital	**426,000**	-
Net cash from financing activities	**426,000**	-
Net decrease in cash and cash equivalents	**(1,301,157)**	(1,889,741)
Cash and cash equivalents, beginning of the period *(note 14)*	**2,881,643**	2,857,566
Cash and cash equivalents, end of the period *(note 14)*	**1,580,486**	967,825

The notes on pages 6 to 25 form an integral part of these condensed consolidated interim financial statements.

1. Legal status and principal activities

Emirates Development Bank ("EDB" or "the Bank") was incorporated as a shareholding company fully owned by the Federal Government of United Arab Emirates as per the Federal Decree Law No. 7 ("the Law") issued on 18 September 2011, by merging the operations and assets and liabilities of Emirates Industrial Bank ("EIB") and Real Estate Bank ("REB"), both were Federal Banks that were established under separate laws ("the merged banks"). The Federal Decree Law No (7) was signed by the President of the United Arab Emirates and became effective on 30 September 2011.

The registered address of the Bank is P.O. Box 51515, Abu Dhabi, UAE.

The main objectives of the Bank is to promote economic development growth in the United Arab Emirates and diversify its sources of income through establishing new industries and strengthening existing ones.

The principal activities of the Bank consist of providing industrial and real estate loans, supporting financial holdings, financing other professional and agriculture and other infrastructure projects in UAE, in addition to providing revolving credit facilities and equity financing and the preparation of feasibility and market studies. The Bank also has a wholly owned subsidiary providing an online facility to the lenders with the ability to register their interest over moveable assets used as a collateral in secured lending transactions. The Bank and its subsidiary are collectively referred to as a Group.

The condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 1 November 2018.

2. Basis of accounting and significant accounting policies

These interim financial statements have been prepared on an ongoing basis in accordance with IAS 34 Interim Financial Reporting and the requirements of applicable laws in the UAE. They do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's annual financial statements as at 31 December 2017.

The accounting policies applied by the Group in the presentation of these condensed consolidated interim financial statements are consistent with those applied by the Bank in its audited financial statements as at and for the year ended 31 December 2017, except for IFRSs that became effective for accounting periods beginning on or after 1 January 2018. These are listed below:

- *IFRS 15 Revenue from Contracts with Customers*
- *IFRS 9 Financial Instruments*
- *Transfers of Investment Property (Amendments to IAS 40)*
- *Annual Improvements to IFRSs 2014–2016 Cycle (Amendments to IFRS 1 and IAS 28)*

Other than IFRS 9, these annual improvements and amendments to standards have no significant impact on the Group's condensed consolidated interim financial statements. Further, information in relation to IFRS 9 implementation and impact is included in note 19 – changes to significant accounting policies.

2. Basis of accounting and significant accounting policies *(continued)*

Effective from	Forthcoming requirements
1 January 2019	IFRS 16 *Leases*
1 January 2019	IFRIC 23 *Uncertainty over Income Tax Treatments*
1 January 2019	*Prepayment Features with Negative Compensation (Amendments to IFRS 9)*
1 January 2019	*Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*
1 January 2019	*Plan Amendments, Curtailment or Settlement (Amendments to IAS 19)*
1 January 2019	*Annual Improvements to IFRSs 2015–2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)*
1 January 2021	*IFRS 17 Insurance Contracts*
To be determined	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*

The Group has not early adopted any revised IFRSs that have been issued but not yet effective.

Basis of consolidation

Subsidiaries are investees that controlled by the Group. The Group controls the investee if it meets the control criteria. The Group reassesses whether it has control if, there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

The interim condensed consolidated financial statements comprise the financial statements of the Group and those of its following subsidiaries:

Legal Name	Country of incorporation	Principal activities	Holding %
Emirates Moveable Collateral Registry Corporation – Sole Proprietorship L.L.C	United Arab Emirates	Online moveable collateral registry	100%

3 Use of judgements and estimates

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reporting amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2017, except for as mentioned below.

The Bank has during 2018 reviewed the useful life estimates for all major asset categories and revised these to align them with reassessed expected useful lives.

3 Use of judgements and estimates *(continued)*

Asset Class	Estimated useful life as at 31 Dec 2017	Reassessed estimated useful life
Buildings	20 years	40 years
Furniture, fixtures and vehicles	3 years	5 years
Computers	3 to 5 years	3 to 5 years

Measurement of fair values

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to management.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as much as possible or available. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the fair values is included in Note 15 – Financial instruments.

4 Seasonality of results

No income of a seasonable nature was recorded in the condensed consolidated interim statement of profit or loss and other comprehensive income for the nine-month periods ended 30 September 2018 and 30 September 2017.

5 Due from banks

	(Unaudited) **30 September 18** **AED'000**	*(Audited)* 31 December 17 AED'000
Placements	**2,300,000**	3,530,000
Current and call accounts	**138,774**	123,455
Less: allowance for impairment	**(545)**	-
	2,438,229	3,653,455

6 Loans and advances

	(Unaudited) **30 September 18** **AED'000**	*(Audited)* 31 December 17 AED'000
Loans and advances*	**411,398**	226,628
Loans to financial Institutions**	**140,029**	148,238
Housing Loans*	**619,097**	390,010
Total loans and advances	**1,170,524**	764,876
Less: allowance for impairment	**(195,198)**	(182,593)
Less: interest in suspense	**(7,392)**	(3,600)
	967,934	578,683

Loans are granted for industrial projects and related services in the United Arab Emirates. Loans are generally granted at a fixed interest rate of 3% to 7% *(31 December 2017: 3.0% to 6.0%)* per annum.

During 2010, Real Estate Bank *(now part of EDB)* granted three loans to a governmental entity for the acquisition of properties in the United Arab Emirates amounting to AED 170 million. These loans carry an interest rate of three month Emirates Inter Bank Offered Rates ("EIBOR") plus a margin of 3.25%. These loans were granted with a grace period of two years from the withdrawal date. The grace period commenced from the date of the first withdrawal in 2010. During 2016, the Bank consolidated these three loans within a new structure carrying an interest rate of three months EIBOR plus a fixed margin of 1.50%.

During second quarter of 2018, the bank granted a new loan to Emirates Real Estate Corporation to settle the old Ijara and Estisnaa financing amounting to AED 46,913 thousand. The principal is to be repaid in 11 equal semi-annual installments. Final repayment date of the loans is 72 months from the first drawdown or 30 April 2024 whichever is earlier. The new loan carries interest rate equal to six months EIBOR + 1.00%. All collaterals are the same as those that were provided under the old Ijara and Estisnaa contracts.

During the first quarter of 2018, the management decided to recognize on the statement of financial position an exposure of AED 7,954 thousand conditionally waived in case the customer fulfils the terms of the contract obligation under a loan settlement agreement. This amount was fully provided for and accordingly the provision amount has also been recognised.

6 Loans and advances *(continued)*

*The aggregate amount of non-performing loans amounted to AED 123 million as of 30 September 2018 *(31 December 2017: AED 116 million)* on which interest was suspended. Interest is suspended on loans that become past due over 90 days unless management's assessment indicates otherwise.

**Loans to financial institutions originally represent placements with Amlak Finance and Global Investment House which were individually impaired with no related collateral amounting to AED 140,029 thousand as of 30 September 2018 *(31 December 2017: AED 148,236 thousand)* and have been renegotiated during 2014 and transferred to loans to financial institutions. The provision accumulated on these loans amounted to AED 72,727 thousand as of 30 September 2018 *(31 December 2017: AED 74,120 thousand).* During 2015 the Bank reclassified the element related to Amlak contingent convertible instrument into Available for Sale portfolio which amounted to AED 19 million and was fully provided for.

7 Murabaha, Ijarah and Estisnaa contracts

	(Unaudited) **30 September 18** **AED'000**	*(Audited)* 31 December 17 AED'000
Islamic home finance	**263,833**	34,541
Murabaha and Estisnaa contracts	**4,273**	12,889
Government Ijarah contracts	**-**	40,319
	268,106	87,749
Less: provision for impairment	**(4,273)**	(4,273)
Net Murabaha, Ijarah and Estisnaa contracts	**263,833**	83,476

During second quarter of 2018, Emirates Real Estate Corporation has settled the existing Ijarah and Estisnaa contracts and obtained a new financing facility from the Bank. The new financing has been extended for settlement of the old financial obligations, which was taken for acquisition of properties in various countries.

Islamic home finance take the form of Ijara and Estisnaa contracts. These are granted to UAE nationals for the purpose of purchasing or construction of their home in line with the UAE vision 2021.

The net amount of non-performing Murabaha, Ijarah and Estisnaa contracts amounted to AED 4,273 thousand *(31 December 2017: AED 4,273 thousand),* which are fully provided for.

8 Investment Securities

	(Unaudited) **30 September 18** **AED'000**	*(Audited)* 31 December 17 AED'000
Available-for-sale financial assets	-	389,217
Financial investments at fair value through profit or loss (FVTPL)	**282,760**	180,413
Financial investments at fair through other comprehensive income (FVOCI)	**383,964**	-
Financial Investments – amortised cost	**62,175**	-
At the end of the period / year	**728,899**	569,630

Movement in available-for-sale financial assets at fair value

	(Unaudited) **30 September 18** **AED'000**	*(Audited)* 31 December 17 AED'000
Balance at the beginning of the period / year	**389,217**	372,234
Additions	**-**	10,338
Change in fair value	**-**	1,076
Movement of fixed income portfolios	**-**	5,569
Effect of adopting IFRS 9:		
Reclassified into financial investment at FVOCI	**(201,630)**	-
Reclassified into financial investment at FVTPL	**(187,587)**	-
Balance at end of period / year	**-**	389,217

The available-for-sale financial investments are denominated in UAE Dirhams, except for Debt instruments, which are denominated to US Dollars and comprises of the following:

	(Audited) 31 December 17 AED'000
Debt instruments portfolios	187,587
Quoted local shares	176,230
Un-quoted local shares	25,400
	389,217

8 Investment Securities *(continued)*

Movement in financial investments at fair value through profit or loss:

	(Unaudited)	*(Audited)*
	30 September 18	31 December 17
	AED'000	AED'000
Balance at the beginning of the period / year	**180,413**	197,626
Effect of adopting IFRS 9:		
Reclassified to financial investment at FVOCI	**(180,413)**	-
Reclassified from available-for-sale assets to FVTPL	**187,587**	-
Additions / (disposal)	**99,425**	(18,253)
Unrealized gain / (loss) on change in fair value	**(3,988)**	1,040
Realized gain / (loss)	**(264)**	-
Balance at end of period / year	**282,760**	180,413

The financial investments at fair value through profit or loss comprises of the following:

	(Unaudited)	*(Audited)*
	30 September 18	31 December 17
	AED'000	AED'000
Debt instruments portfolio	**173,912**	-
Perpetual Sukuk instruments	**108,848**	-
Un-quoted local shares	**-**	180,413
	282,760	180,413

Movement in financial investments at fair value through other comprehensive income

	(Unaudited)
	30 September 18
	AED'000
Balance at the beginning of the period	**-**
Effect of adopting IFRS 9:	
Reclassified from available-for-sale assets	**201,630**
Reclassified from financial investment at FVTPL	**180,413**
Additions / (Disposal)	**4,379**
Change in fair value	**(2,458)**
Balance at end of period	**383,964**

8 Investment Securities *(continued)*

The financial investments at fair value through other comprehensive income are denominated in UAE Dirhams and comprises of the following:

	(Unaudited) **30 September 18 AED'000**
Quoted local shares	**178,151**
Un-quoted local shares	**205,813**
	383,964

Movement in financial investments measured at amortised cost:

	(Unaudited) **30 September 18 AED'000**
Balance at the beginning of the period	**-**
Additions	**62,636**
Unamortised discount on purchase	**(461)**
Balance at end of period	**62,175**

Investments carried at amortised cost consist of UD Dollar denominated bonds that carry a coupon rate of 3.875% p.a. with semi-annual payments and a maturity of 19 March 2023.

9 Investment Property

Investment properties comprise of the following:

	Land AED'000	**Buildings AED'000**	**Properties under development AED'000**	**Total AED'000**
At 31 December 2016 (Audited)	120,820	368,350	101,870	591,040
Revaluation gain/(loss)	580	(13,850)	(6,050)	(19,320)
At 31 December 2017 (Audited)	121,400	354,500	95,820	571,720
Revaluation gain/(loss)	**6,000**	**(20,200)**	**(3,520)**	**(17,720)**
At 30 September 2018 (Unaudited)	**127,400**	**334,300**	**92,300**	**554,000**

The fair values were based on active market prices, adjusted for differences in the nature, location or condition of the specific properties estimated by an independent external valuation party. The value presented at 30 September 2018 has been derived from the valuation prepared by the independent external valuation party since there were no significant changes identified by management.

The fair values of investment property are categorised under level 3 of the fair value hierarchy.

10 Deposits and funds from governmental institutions

	(Unaudited)	*(Audited)*
	30 September 18	31 December 17
	AED'000	AED'000
Deposits from governmental institutions		
Sheikh Zayed Housing Program	**1,000,000**	-
Mohammad Bin Rashid Innovation Fund	**300,000**	-
Funds from governmental institutions		
Sheikh Zayed Housing Program	**649,548**	2,324,794
Mohammad Bin Rashid Innovation Fund	**-**	50,000
	1,949,548	2,374,794

Sheikh Zayed Housing Program

Pursuant to the Federal Law No. (10) of 2009 relating to the Sheikh Zayed Housing Program ("the Program") and with its regulations issued by UAE Cabinet Resolution No. (9) of 2011, the Bank and the Program signed an agreement for the provision of banking, financial and investment management services on 8 March 2015.

This agreement lays out specific services that are to be provided by the Bank to the program, the terms and conditions the services are to be provided under, key performance indicators that will be used to assess the Bank's performance, the Bank's and Program's rights and responsibilities and details the fees that are to be charged by the Bank to the Program in exchange.

The services to be provided include receiving funds pertaining to the Program and providing these funds to beneficiaries in the form of housing loans, as per the terms agreed by the Program and beneficiary, then administering the loans as per agreement. Additionally the Bank is to make progress disbursements for housing projects and other financial aid to UAE nationals as well as manage the recovery services of the loans.

The Ministry of Finance transfers the funds allocated to the Program to the current account of the Bank with the Central Bank of the UAE. The Program earns interest on the funds invested with the Bank as per the agreement signed. The effective average interest rate earned on the funds during the period was 0.5% *(2016: 0.47%)*.

The substantial risk and rewards associated with the Program's funds rest with the Bank. Therefore, the funds of the Program under the management of the Bank are disclosed as part of the assets (call account and placements) of the Bank. The Program loans, however, do not carry any risk to the Bank and therefore are not included in the Group's statement of financial position.

10 Deposits and funds from governmental institutions *(continued)*

Ministry of Finance – Sheikh Mohammed bin Rashid Innovation Fund

The Mohammed Bin Rashid Innovation Fund ("the fund") is a government initiative created by the United Arab Emirates prime minister, His Highness Sheikh Mohammed bin Rashid Al Maktoum, as a fund to finance and foster innovation. The Ministry of Finance ("MoF") was appointed to be responsible for its implementation. EDB was subsequently appointed by the MoF to act as the administrative host and operator. Thus, there is a trilateral agreement between the three parties (the fund, MoF, and the Bank).

The scope of the Bank's responsibilities includes review and comment on the fund's policy, guidelines, and terms and conditions, host and collaborate the development of the fund operating Manual, support in the sourcing and contracting of the Decision and Advisory Committee experts, support in the contracting of strategic partners, promoting and marketing the fund, approve the operations team, manage the fund account, manage the annual report, host and maintain the fund's website, and oversee the operations team's performance.

11 Share Capital

As per the Federal Law No. 7 the authorized share capital is 10 billion shares at AED 1 each with paid up capital of AED 5 billion required to be fully paid by the Federal Government. The issued share capital at 30 September 2018 comprises of 5,000,000 thousand ordinary shares of AED 1 each *(31 December 2017: 5,000,000 thousand ordinary shares of AED 1 each).* The shares are not yet fully paid-up.

During 2018, MoF has transferred AED 426 million to reduce the unpaid portion of the authorized share capital.

12 Other reserves

Special reserve

Special reserve is created based on Article 82 of the Federal Law No. 10 for the year 1980 of the Central Bank and monetary system, and according to Article 43 of the Bank's Articles of Association. 10% of the Bank's profit for the year shall be transferred to the reserve until it reaches 50% of the nominal value of the paid up share capital.

Proposed capital increase

Article (27) of Law No. (1) of 1981 relating to the Incorporation of the Real Estate Bank specified that the responsibilities and authority of the National Housing Council, which were established by virtue of Law No. (6) for the year 1979 and its principle responsibilities relating to granting loans to UAE nationals for constructing residential properties, shall be transferred to the Emirates Development Bank. Furthermore, the article stated that the responsibilities, authorities and rights of the Settlement Committee, which relates to the settlement of real estate loans given to the UAE Nationals by commercial banks within the UAE as per the Ministerial Decree No. (2) of 1980 Concerning Settlement of Real Estate Loans, shall be transferred to the Real Estate Bank. Thus, these amounts were recognized as a liability until a resolution from the Bank's Board on their treatment and recognition was passed. During 2017, the liability mentioned above was approved to be recognized as paid up capital and there has been a transfer from other liabilities to proposed capital increase amounting to AED 10.7 million. This amount will be added to share capital after ratification of the Board decision by the Cabinet.

13 Interest income

	Nine month period ended		Three month period ended	
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
	30 September 18	30 September 17	**30 September 18**	30 September 17
	AED '000	AED '000	**AED '000**	AED '000
Bank placements and deposit accounts	**70,651**	75,640	**24,270**	23,319
Loans	**20,685**	12,155	**7,568**	4,740
Central Bank of the UAE	**597**	132	**182**	51
Loan to governmental establishments	**3,532**	2,436	**1,431**	824
Fixed income securities	**6,147**	5,391	**2,608**	1,695
	101,612	95,754	**36,059**	30,629

14 Cash and cash equivalents

For the purpose of the condensed consolidated interim statement of cash flows, cash and cash equivalents comprise:

	(Unaudited)	*(Unaudited)*	*(Audited)*
	30 September 18	30 September 17	31 December 17
	AED'000	AED'000	AED'000
Cash and balances with UAE Central Bank	**857,257**	76,473	238,188
Due from banks and financial institutions	**2,438,229**	3,923,352	3,653,455
	3,295,486	3,999,825	3,891,643
Less: balances with original maturities over three months	**(1,715,000)**	(3,032,000)	(1,010,000)
	1,580,486	967,825	2,881,643

15 Financial instruments

The fair values of financial assets and financial liabilities, together with the carrying amounts in the condensed consolidated interim statement of financial position, are as follows.

	(Unaudited)		(Audited)	
	30 September 18		31 December 17	
	AED'000	**AED'000**	AED'000	AED'000
	Carrying amount	**Fair value**	Carrying amount	Fair value
Assets carried at fair value				
Available-for-sale financial assets	**-**	**-**	389,217	389,217
Financial investments at fair value through profit or loss (FVTPL)	**282,760**	**282,760**	180,413	180,413
Financial investments at fair value through other comprehensive income	**383,964**	**383,964**	-	-
	666,724	**666,724**	569,630	569,630
Assets carried at amortised cost				
Cash and balances with the UAE Central Bank	**857,257**	**857,257**	238,188	238,188
Due from banks and financial Institutions	**2,438,229**	**2,438,229**	3,653,455	3,653,455
Loans and advances	**967,934**	**967,934**	578,683	578,683
Murabaha, Ijarah and Estisnaa Contracts	**263,833**	**263,833**	83,476	83,476
Financial investments – amortised cost	**62,175**	**62,175**	-	-
	4,589,428	**4,589,428**	4,553,802	4,553,802

	30 September 18		31 December 17	
	Carrying amount AED	**Fair value AED**	Carrying amount AED	Fair value AED
Liabilities carried at amortised cost				
Deposits from governmental institutions	**1,300,000**	**1,300,000**	-	-
Funds from governmental institutions	**649,548**	**649,548**	2,374,794	2,374,794
Provision for employee's benefits	**1,880**	**1,880**	1,244	1,244
	1,951,428	**1,951,428**	2,376,038	2,376,038

15 Financial instruments *(continued)*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
As at 30 September 2018 *(Unaudited)*				
Financial investments at fair value through OCI	**178,151**	**-**	**205,813**	**383,964**
Financial assets at fair value through profit or loss	**282,760**	**-**	**-**	**282,760**
	460,911	**-**	**205,813**	**666,724**
As at 31 December 2017 *(Audited)*				
Available-for-sale financial investments	363,817	-	25,400	389,217
Financial assets at fair value through profit or loss	-	-	180,413	180,413
	363,817	-	205,813	569,630

16 Investment Income

	Nine month period ended		Three month period ended	
	(Unaudited) **30 September 18** **AED '000**	*(Unaudited)* 30 September 17 AED '000	***(Unaudited)*** **30 September 18** **AED '000**	*(Unaudited)* 30 September 17 AED '000
Dividend Income	**16,018**	18,921	**2,800**	-
(Loss) / Gain on sale of financial investment at fair value	**(264)**	1,594	**50**	1,049
	15,754	20,515	**2,850**	1,049

17 Commitments and contingent liabilities

The commitments as at the date of the report were as follows:

	(Unaudited) **30 September 18** **AED'000**	*(Audited)* 31 December 17 AED'000
Unwithdrawn credit commitments	**361,321**	101,833
Guarantees	**14,691**	-

17.1 Unwithdrawn credit commitments represents contractual commitments to provide loans and credit facilities. Usually these commitments have fixed expiration dates or other conditions for cancellation and may require payment of a fee. Due to the possibility of an expiration of these commitments without being withdrawn, the total contractual values of these do not necessarily represent future financial obligation.

17.2 The Bank has issued financial guarantees in favour of other lending banks who have granted loans to the customers of Mohammad Bin Rashid Innovation Fund. The Bank also have a reciprocal arrangement with Ministry of Finance to claim the guarantee amount in case of any default by the customer.

There are no other contingencies and commitments as at the period end.

18 Related parties

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

Related parties comprise key higher management personnel, and their related companies and the institutions and authorities of the federal government. In the normal course of business, the Group had various transactions with its related parties. Transactions are entered into with related parties on terms and conditions approved by the Group's management.

The Group carries out various transactions in the normal course of business with its shareholders, directors and officers and investee companies.

18 Related parties *(continued)*

Significant balances and transactions with related parties during the year were as follows:

a) *Balances with related parties*

	(Unaudited) **30 September 18 AED'000**	*(Audited)* 31 December 17 AED'000
Loans and advances, Ijara, and Estisnaa	**227,875**	151,740
Deposits from governmental institutions *(note 10)*	**1,300,000**	**-**
Funds of from governmental institutions *(note 10)*	**649,548**	2,374,794

b) *Transactions with related parties*

	(Unaudited) **30 September 18 AED'000**	*(Unaudited)* 30 September 17 AED'000
Key management compensation		
Salaries and other short-term benefits	**9,156**	2,920

c) *Other related party transactions*

Directors remuneration	**1,275**	850
Interest income from loans and deposits	**4,711**	1,612
Interest expense on deposits	**30,578**	18,453

19 Changes in accounting policies, estimates and judgements

Changes in accounting policies

The Group has consistently applied the accounting policies as adopted in the annual financial statements for the year ended 31 December 2017, except for the following accounting policies, which are applicable from 1 January 2018:

a) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The impact of IFRS 15 was assessed by the management, and was found to only impact the fees on loans, fees on services provided and service fees on property. Management has assessed that the impact of the application of IFRS 15 on the financial statements of the Group and concluded that it is not material.

The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

b) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

I. Classification of financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The classification categories for financial assets are: amortised cost, FVOCI, and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

II. Classification of financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows: the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Group’s assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

19 Changes in accounting policies, estimates and judgements *(continued)*

Changes in accounting policies *(continued)*

b) IFRS 9 Financial Instruments *(continued)*

III. Impact assessment

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the group of financial assets as at 1 January 2018.

Financial assets	Original classification under IAS 39	New Classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
Quoted local equity shares	Available-for-sale	FVOCI	176,230	176,230
Unquoted local equity shares	Available-for-sale	FVOCI	25,400	25,400
Unquoted local equity shares	FVTPL	FVOCI	180,413	180,413
Debt instruments	Available-for-sale	FVTPL	187,587	187,587
Cash and balances with the UAE Central Bank	Amortised cost	Amortised cost	238,188	238,188
Due from banks and financial institutions	Amortised cost	Amortised cost	3,653,455	3,652,668
Loans and advances	Amortised cost	Amortised cost	578,683	579,470
Murabaha, Ijarah and Estisnaa contracts	Amortised cost	Amortised cost	83,476	83,476
Total financial assets			5,123,432	5,123,432

Deposits and funds from governmental institutions	Amortised cost	Amortised cost	2,374,794	2,374,794
Provision for employees' end of service benefits	Amortised cost	Amortised cost	1,244	1,244
Total financial liabilities			2,376,038	2,376,038

19 Changes in accounting policies, estimates and judgements *(continued)*

Changes in accounting policies *(continued)*

b) IFRS 9 Financial Instruments *(continued)*

IV. Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases: 12-month ECLs that result from possible default events within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument. Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Group has chosen to apply this policy also for trade receivables and contract assets with a significant financing component.

The management has decided to maintain the higher of ECL or provision as per Central Bank guidelines. This will also be reviewed at the end of the financial year for any adjustment on account of additional provisioning or release based on the updated ECL numbers as at 31 December 2018.

For financial assets in the scope of the IFRS 9 impairment model, impairment losses have been accounted for as follows;

	(Unaudited) **30 September 18 Higher of ECL or Provision as per Central Bank guidelines Amount AED'000**	*(Unaudited)* 30 September 17 Provision as per Central Bank guidelines Amount AED'000
Loss allowances as at beginning of the period under IAS 39	186,866	163,162
Opening adjustment under IFRS 9 as at 1 January	-	-
Loss allowances as at 1 January under IFRS 9	186,866	163,162
Charge for the period	5,195	17,214
Transfer from off balance sheet provisions *(note 6)*	7,954	-
	200,015	180,376

19 Changes in accounting policies, estimates and judgements *(continued)*

Changes in accounting policies *(continued)*

b) IFRS 9 Financial Instruments *(continued)*

V. Transition

The Group has taken the advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 has been recognised in retained earnings and reserves as at 1 January 2018.

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

- The business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

The following table summarizes the impact of transition to IFRS 9 on the opening balance of reserves and retained earnings.

	Amount AED'000
Fair value reserves	
Increase due to financial instruments reclassified from fair value through profit or loss (FVTPL under IAS 39) to fair value through other comprehensive income (FVOCI under IFRS 9)	
Unquoted local equity shares	1,050
Change due to financial instruments reclassified from available for sale (under IAS 39) to fair value through profit or loss (FVTPL under IFRS 9)	
Debt instruments	423
Impact on fair value reserves as at 1 January 2018	1,473
Retained earnings	
Decrease due to financial instruments reclassified from fair value through profit or loss (FVTPL under IAS 39) to fair value through other comprehensive income (FVOCI under IFRS 9)	
Unquoted local equity shares	(1,050)
Change due to financial instruments reclassified from available for sale (under IAS 39) to fair value through profit or loss (FVTPL under IFRS 9)	
Debt instruments	(423)
Impact on retained earnings as at 1 January 2018	(1,473)

20 Comparative information

Certain items have been reclassified, from the Bank's prior year financial statements to conform to the current year's presentation and improve the transparency of certain line items of the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and the notes to the accounts.

Emirates Development Bank

Financial statements

31 December 2017

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Abu Dhabi
United Arab Emirates

Emirates Development Bank

Financial statements

Contents | *Page*

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Independent Auditors' Report

To the Shareholder of Emirates Development Bank

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Emirates Development Bank ("the Bank"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Emphasis of matter

Without qualifying our opinion, we draw attention to Article No 6 of the Federal Law Decree No (7) which requires the paid up capital of the Bank to be AED 5 billion. The Bank is not in compliance with the Article as at 31 December 2017.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of Management and Those Charged with Governance for the Financial Statements (continued)

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance of the Bank are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

We communicate with Those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Lower Gulf Limited

Emilio Pera
Registration No: 1146
Abu Dhabi, United Arab Emirates
Date:

Emirates Development Bank

Statement of financial position
as at 31 December

	Note	2017 AED'000	2016 AED'000
Assets			
Cash and balances with the UAE Central Bank	*26*	**238,188**	160,412
Due from banks	*6*	**3,653,455**	4,337,154
Loans and advances	*7*	**578,683**	331,901
Murabaha, Ijarah and Estisnaa contracts	*8*	**83,476**	69,279
Available-for-sale financial assets	*9*	**389,217**	372,234
Financial investments at fair value through profit or loss	*10*	**180,413**	197,626
Investment property	*11*	**571,720**	591,040
Property and equipment	*13*	**63,467**	69,497
Other assets	*12*	**27,973**	33,251
Total assets		**5,786,592**	6,162,394
Liabilities			
Deposits from governmental institutions	*14*	**-**	2,200,000
Funds from governmental institutions	*16*	**2,374,794**	607,563
Other liabilities	*15*	**70,052**	63,951
Total liabilities		**2,444,846**	2,871,514
Shareholders' equity			
Paid up capital	*17*	**2,195,996**	2,195,996
Other reserves	*18*	**570,064**	555,464
Retained earnings		**501,705**	466,515
Fair value reserve		**73,981**	72,905
Total shareholders' equity		3,341,746	3,290,880
Total liabilities and shareholders' equity		**5,786,592**	6,162,394

H.E. Obaid Humaid Al Tayer
Chairman

Mr. Haytham Yousef Kamhiyah
Chief Executive Officer

The notes on pages 8 to 52 form an integral part of these financial statements.

The independent auditors' report is set out on pages 1 to 3.

Emirates Development Bank

Statement of profit or loss and other comprehensive income

for the year ended 31 December

	Note	2017 AED'000	2016 AED'000
Income			
Interest income	*20*	**126,736**	130,333
Interest expense	*21*	**(37,309)**	(41,443)
Net interest income		**89,427**	88,890
Profit from Murabaha, Ijarah and Estisnaa		**1,812**	2,015
Investment income	*22*	**20,467**	20,354
Fees and Commission Income		**10,000**	9,000
Other income	*23*	**21,194**	26,776
Total operating income		**142,900**	147,035
Expenses			
Salaries and employee benefits		**(37,806)**	(34,191)
Operating and administrative expenses	*24*	**(25,315)**	(25,375)
Impairment charge		**(22,398)**	(17,046)
Profit before revaluation of investment property and financial investments at FVTPL		**57,381**	70,423
Gain/(loss) on revaluation of investment property and financial investments at FVTPL		**(18,280)**	20,391
Profit for the year		**39,101**	90,814
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Increase / (decrease) in the fair value of available-for-sale investment		**1,076**	(14,585)
Total comprehensive income		1,076	(14,585)
Total profit and comprehensive income		**40,177**	76,229

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Emirates Development Bank

Statement of changes in equity
for the year ended 31 December

	Share capital AED'000	Special reserve AED'000	Proposed capital increase AED'000	Retained earnings AED'000	Fair value reserve AED'000	Total AED'000
Balance at 1 January 2016	2,195,996	555,464	-	375,701	87,490	3,214,651
Total comprehensive income:						
Net profit for the year	-	-	-	90,814	-	90,814
Items that may be reclassified subsequently to profit or loss						
Net change in fair value of available-for-sale financial assets	-	-	-	-	(14,585)	(14,585)
Total comprehensive income for the year	-	-	-	90,814	(14,585)	76,229
Balance at 31 December 2016	**2,195,996**	**555,464**	-	**466,515**	**72,905**	**3,290,880**
Balance at 1 January 2017	2,195,996	555,464	-	466,515	72,905	3,290,880
Total comprehensive income:						
Net profit for the year	-	-	-	39,101	-	39,101
Items that may be reclassified subsequently to profit or loss						
Net change in fair value of available-for-sale financial assets	-	-	-	-	1,076	1,076
Total comprehensive income for the year	-	-	-	39,101	1,076	40,177
Proposed capital increase *(Note 18)*	-	-	10,689	-	-	10,689
Transfer to other reserves *(Note 18)*	-	3,911	-	(3,911)	-	-
Balance at 31 December 2017	**2,195,996**	**559,375**	**10,689**	**501,705**	**73,981**	**3,341,746**

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Emirates Development Bank

Statement of cash flows
for the year ended 31 December

	Note	2017 AED'000	2016 AED'000
Cash flows from operating activities			
Profit for the year		**39,101**	90,814
Adjustments for:			
Depreciation	*13*	**11,609**	11,365
Net fair value loss / (gain) and disposal of financial assets through profit or loss	*10*	**17,213**	(26,783)
Fair value loss on valuation of investment Properties	*11*	**19,320**	6,392
Dividend and investment income		**(18,922)**	(20,354)
Provision for employees' end of service benefits		**650**	490
Provision for impairment of loans and advances - net		**22,398**	9,802
		91,369	71,726
Changes in:			
Due from banks maturing after three months		**629,999**	1,567,000
Loans and advances		**(269,180)**	(53,310)
Murabaha, Ijarah and Estisnaa contracts		**(14,197)**	-
Other assets		**6,740**	498
Deposits from governmental authorities and Establishments		**(2,200,000)**	(1,100,000)
Funds of Sheikh Zayed Housing Program		**1,767,231**	280,667
Staff benefits paid		**(210)**	-
Other liabilities		**16,350**	8,564
Net cash generated from operating activities		**28,102**	775,145
Cash flows from investing activities			
Acquisition of property and equipment		**(5,579)**	(10,464)
Net proceeds from sale of investment properties		**-**	(13,152)
Dividend received		**17,460**	20,354
Movement of available-for-sale investments		**(15,907)**	13,546
Net cash generated (used in) / from investing activities		**(4,026)**	10,284
Net increase in cash and cash equivalents		**24,076**	785,429
Cash and cash equivalents at 1 January		**2,857,567**	2,072,138
Cash and cash equivalents at 31 December	*26*	**2,881,643**	2,857,567

The notes on pages 8 to 52 form an integral part of these financial statements.

The independent auditors' report is set out on pages 1 to 3.

1 Legal status and principal activities

Emirates Development Bank ("EDB", "the Bank"), was incorporated as a shareholding company fully owned by the Federal Government of United Arab Emirates as per the Federal Decree Law No. 7 ("the Law") issued on 18 September 2011, by merging the operations and assets and liabilities of Emirates Industrial Bank ("EIB") and Real Estate Bank ("REB"), both existing Federal banks that were established under separate laws ("the merged banks"). The Federal Decree Law No. 7 was signed by the President of the United Arab Emirates and became effective from 30 September 2011.

The registered address of the Bank is P.O. Box 51515, Abu Dhabi, United Arab Emirates.

The main objectives of the Bank are to promote economic development growth in the United Arab Emirates and diversify its sources of income through establishing new industries and strengthening existing ones.

The principal activities of the Bank consist of providing industrial and real estate loans, supporting financial holdings, financing other professional and agriculture and other infrastructure projects in UAE, in addition to providing revolving credit facilities and equity financing and the preparation of feasibility and market studies.

These financial statements were approved and authorised for issue by the Board of Directors on 18 JUL 2018.

2 Basis of preparation

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the applicable requirements of the Federal Decree Law No. 7 issued on 18 September 2011.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and financial assets at fair value through profit or loss all of which are carried at fair value.

2.3 Functional and presentation currency

These financial statements are presented in United Arab Emirates Dirham ("AED"), which is the Bank's functional currency. Amounts have been rounded to nearest thousand except where otherwise indicated.

2 Basis of preparation *(continued)*

2.4 Use of estimates and judgments

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

3 Significant accounting policies

The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Financial assets

3.1.1 Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss; loans receivable; Murabaha; Ijarah and Estisnaa contracts; and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans, Murabaha, Ijarah and Estisnaa contracts

Loans are issued by the Bank by providing money directly to the borrowers and are carried at amortised cost. All loans are recognised when cash is advanced to the borrowers.

Murabaha contracts represent financing for the purchase of industrial goods by the borrowers on a deferred payment basis. A Murabaha contract is recognised when money is disbursed to the supplier for the supply of industrial goods to the borrower.

Estisnaa contracts represent financing for the construction of industrial civil works on a deferred payment basis. An Estisnaa contract is recognised when money is disbursed to the contractor for the construction of civil works for the borrower.

Other Estisnaa contracts are followed by Ijarah contract between the Bank and Emirates Real Estate Corporation, whereby Emirates Real Estate Corporation, based on an order from the Bank, undertakes to construct and subsequently lease the subject matter of the contract according to a specific price and method of payment.

Estisnaa contracts are recognized as receivables at an amount equal to the net investment in the Estisnaa when cash is advanced. The net investment in the lease is the gross investment in the lease less unearned finance income. Estisnaa are carried at amortised cost using the effective profit rate method.

3 Significant accounting policies *(continued)*

3.1 Financial assets *(continued)*

3.1.1 Classification *(continued)*

(a) Loans, Murabaha, Ijarah and Estisnaa contracts (continued)

Loans, Murabaha and Estisnaa are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans, Murabaha and Estisnaa are initially recognised at fair value, which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost. Loans, Murabaha and Estisnaa contracts are reported in the statement of financial position as Loans and advances and as Murabaha and Estisnaa contracts. Interest on loans is included in the statement of profit or loss and other comprehensive income. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the Loans, Murabaha and Estisnaa and are recognised in the statement of profit or loss and other comprehensive income as 'provision for impairment of loans and advances'.

Ijarah contracts are finance lease contracts. The Ijarah contract term constitutes the major part of the economic life of the asset, and the significant risks and rewards incidental to ownership, are substantially transferred to the lessee. Title may or may not eventually be transferred to the lessee.

Ijarah contracts are recognized as receivables at an amount equal to the net investment in the Ijarah when cash is advanced. The net investment in the lease is the gross investment in the lease less unearned finance income. Ijarah contracts are carried at amortised cost using the effective profit rate method.

Profit on Ijarah and Estisnaa contracts are recognised on accrual basis and time-apportioned using the effective profit rate method. Profit on Ijarah and Estisnaa contracts are not recognised when the recovery of the profit is in doubt.

(b) Available-for-sale financial assets

'Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in Other Comprehensive Income and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

(c) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

3 Significant accounting policies *(continued)*

3.1 Financial assets *(continued)*

3.1.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Bank commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of profit or loss and other comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred where the Bank transfers substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans, Murabaha, Ijarah and Estisnaa contracts are carried at amortised cost.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of profit or loss and other comprehensive income, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is also recognised in the statement of profit or loss and other comprehensive income when the Bank's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for- sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of profit or loss and other comprehensive income.

Dividends on available-for-sale equity instruments are recognised in the statement of profit or loss and other comprehensive income when the Bank's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Offsetting

Financial assets and liabilities are set off and the net amount reported in the statement of financial position when the Bank has a legally enforceable right of set off and recognized amounts and intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

3 Significant accounting policies *(continued)*

3.1 Financial assets *(continued)*

3.1.2 Recognition and measurement *(continued)*

Impairment
The Bank assesses at each period-end whether there is objective evidence that a financial asset or a group of financial assets is impaired. Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In general, the Bank's considers a decline of 30% to be significant and a period of nine months to be prolonged. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

The Bank considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances (carried at amortised cost) with similar credit risk characteristics.

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against such financial assets. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Impairment losses on an unquoted equity instrument that is carried at cost because its fair value cannot be reliably measured, is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

Impairment of Ijarah and Estisnaa
Ijarah and Estisnaa are shown net of impairment provisions. The Ijarah and Estisnaa recoverable amounts are estimated based on the present value of future cash flows discounted using the original interest rate of the instrument. When a receivable is deemed uncollectible, it is written off against the related allowance for impairment. Such receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

3 Significant accounting policies *(continued)*

3.2 Financial Liabilities

Financial liabilities including deposits from governments' institutions and call accounts for Sheikh Zayed Housing Program, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective profit method, with profit expense recognised on an effective yield basis.

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating profit expense over the relevant period. The effective profit rate is the rate that is exactly required to unwind estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

De-recognition of financial liabilities
The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or expired.

3.3 Provision for staff benefits

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No. 7, 1999 for Pension and Social Security. The provision for staff benefits calculated as per the approved bank staff regulations is usually higher than the estimated provision based on actuarial techniques in accordance with IAS 19.

A provision is made for the estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to the date of the statement of financial position. Provision is also made for the end of service benefits due to employees in accordance with the UAE Labour Law and the Bank's policy and internal regulations for their periods of service up to the date of the statement of financial position.

An actuarial valuation has not been performed on employees' end of service benefits as the net impact of the discount rate and future salary and benefit levels on the present value of the benefits obligation are not likely to be significant.

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

3.4 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances with the Central Bank of the UAE, money in call accounts, placements and due from banks with original maturities of less than three months.

3.5 Interest income and expense recognition

Interest income from loans, interest expense and profit on Murabaha, Ijarah and Estisnaa contracts are recognised in the statement of profit or loss and other comprehensive income using effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

3 Significant accounting policies *(continued)*

3.5 Interest income and expense recognition *(continued)*

The calculation of effective interest rate includes transaction costs and fees and points paid or received that are integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment and is not recognised as interest income (i.e. recorded as suspended interest).

3.6 Investment properties

Investment properties principally comprise of commercial lands and buildings held by the Bank for long term rental yields or for capital appreciation or both. Such properties are measured initially at cost including all transaction costs, and are subsequently carried at fair value, representing the open market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the statement of profit or loss and other comprehensive income. When the use of a property changes such that it is reclassified as a trading property, its fair value as at the date of reclassification becomes its cost for subsequent accounting.

Fair values are based on market values, being the estimated amount for which the property could be exchanged on the date of the valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgably, prudently and without compulsion.

Investment properties is derecognised upon disposal or when the investment properties is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gains or losses arising from the retirement or disposal of investment properties, calculated as the difference between the net disposal proceeds and the carrying amount are included in the statement of profit or loss and other comprehensive income.

3.6.1 Investment properties under development

Investment properties under development is carried at cost less impairment (if any).

3.6.2 Sale of investment properties

Revenue from sale of investment properties are measured at the fair value of the consideration received or receivable, and represents amounts receivable against the sale stated net of discounts, returns.

The Bank recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Bank's activities. The Bank bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Bank recognise its revenue from the sale of investment properties at the point of transfer of risks and rewards of ownership of the property in its entirety to the customer, revenue and the associated costs are recognised at that point of time.

3 Significant accounting policies *(continued)*

3.7 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Bank at the spot exchange rates at the date of the transactions

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of available-for-sale equity instruments items are recognised in Other Comprehensive Income.

3.8 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.9 Property, equipment and depreciation

Property and equipment is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed on straight line basis so as to write down the cost of property over 20 years and equipment over three years. Lands granted from the Government (shareholder) are not depreciated and are measured at nominal amount of AED 1.

Buildings	20 years
Furniture, fixtures and vehicles	3 years
Computers	3 to 5 years

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. If significant parts of an item of property or equipment have different useful lives then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is recognized within other income in profit or loss.

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

3 Significant accounting policies *(continued)*

3.9 Property and equipment and depreciation *(continued)*

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.10 Impairment of non-financial assets

At the end of each reporting date, the Bank reviews the carrying amounts of its assets in order to assess whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.11 Funds from governmental institutions

Funds of the Sheikh Zayed Housing Program and the Ministry of Finance vested with and managed by the Bank are accounted for within the assets and liabilities of the Bank *(note 16)*.

3.12 Proceeds from sale of investment properties

Proceeds from sale of apartment units of the investment properties are recognised as a liability until the delivery of the unit and transfer of risks and rewards to the customer.

3 Significant accounting policies *(continued)*

3.13 Dividend distribution

Dividend distribution to the Bank's shareholders is recognised as a liability in the Bank's financial statement in the period in which the dividends are approved by the shareholders.

3.14 Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

3.15 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations that are issued but not effective for the accounting period starting on or after 1 January 2017, and have not been early adopted in preparing these financial statements.

Effective date	New standards or amendments
1 January 2018	IFRS 15 Revenue from Contracts with Customers
1 January 2018	IFRS 9 Financial Instruments
1 January 2018	Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
1 January 2018	Annual Improvements to IFRSs 2014–2016 Cycle – various standards (Amendments to IFRS 1 and IAS 28)
1 January 2019	IFRS 16 Leases
To be determined	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The following standards are expected to have an impact on the Bank's financial statements in the period of initial application.

3.15.1 IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The impact of IFRS 15 was assessed by the management, and was found to only impact the fees on loans, fees on services provided and service fees on property. Management has assessed that the impact of the application of IFRS 15 on the financial statements of the Bank and concluded that it is not material.

3 Significant accounting policies *(continued)*

3.15 New standards and interpretations not yet adopted *(continued)*

3.15.1 IFRS 15 Revenue from Contracts with Customers *(continued)*

The Bank plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Bank will not apply the requirements of IFRS 15 to the comparative period presented.

3.15.2 IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

a) Classification

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The classification categories for financial assets are: amortised cost, FVOCI, and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

- ***Impact Assessment***

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows:

i. Investments in debt instruments currently classified as available-for–sale under IAS 39, under IFRS 9 may be measures at amortized cost or FVTPL. The Bank intends to classify these as FVTPL.

ii. Investments in equity instruments classified as available-for–sale under IAS 39, will be irrevocably reclassified to FVOCI as at 1 January 2018.

iii. Investments in equity instruments classified as FVTPL under IAS 39, will be irrevocably reclassified to FVOCI as at 1 January 2018.

iv. Loans and deposits and placements and amounts due from banks measured at amortized cost under IAS 39 will in general continue to be measured at amortized cost under IFRS 9.

b) Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

3 Significant accounting policies (continued)

3.15 New standards and interpretations not yet adopted *(continued)*

3.15.2 IFRS 9 Financial Instruments *(continued)*

***b) Impairment** (continued)*

Under IFRS 9, loss allowances will be measured on either of the following bases: 12-month ECLs that result from possible default events within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument. Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Bank has chosen to apply this policy also for trade receivables and contract assets with a significant financing component.

- ***Impact Assessment***

  The Bank will record an adjustment to its opening January 1, 2018 retained earnings and OCI, to reflect the application of the new requirements of Impairment and Measurement at the adoption date and will not restate comparative periods.

  The Bank estimates the IFRS 9 transition amount will approximately increase equity in the range of 0.3% to 0.9% of total equity. The estimated impact relates primarily to the implementation of the ECL requirements. The assessment made by the Bank is preliminary and as part of the implementation of the new standard the Bank will continue to refine its model assumptions, accounting policies, governance framework and estimation techniques employed leading up to 31 March 2018 reporting.

c) Classification of financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows: the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of change in the fair value is presented in profit or loss.

The Bank has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Bank's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

d) Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and ECLs. The Bank's assessment included an analysis to identify data gaps against current processes and the Bank is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

3 Significant accounting policies *(continued)*

3.15 New standards and interpretations not yet adopted *(continued)*

3.15.2 IFRS 9 Financial Instruments *(continued)*

*e) **Transition***

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

i. The Bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

ii. The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

f) Implementation status

The Bank continues to progress with the IFRS 9 implementation project with the documentation of the Bank's accounting policy, assessment of business models, the build and testing of risk modelling methodologies for the calculation of impairment currently ongoing.

4 Risk management

4.1 Introduction and overview

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. Below are the type of risks the Bank is exposed to:

- credit risk
- liquidity risk
- market risk
- operational risk

The Bank has management committees to oversee the risk management process. The Board Risk & Credit Committee, under delegation from the Board of Directors defines policies, processes, and systems to manage and monitor credit, market and operational risks. The Bank also has a Credit Risk function, which independently reviews adherence to all risk management policies and procedures. The Bank's internal audit function, which is part of risk framework, primarily evaluates the effectiveness of the controls addressing operational risk.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank's management regularly reviews the risk management policies and systems to reflect changes in markets, products and emerging best practice.

4.2 Credit risk

'Credit risk' is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment securities.

Credit risk also arises through the downgrading of counter parties, whose credit instruments are held by the Bank, thereby resulting in the value of the assets to fall. As credit risk is the Bank's most important risk, considerable resources, expertise and controls are devoted to managing this risk within the Bank.

Management is responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives.

The credit policy provides the development of a systematic and consistent approach to identifying and managing borrower and counter party risks.

4 Risk management *(continued)*

4.2 Credit risk *(continued)*

The credit risk function in addition to the credit team are responsible for the recognition and management of credit risk both at transaction and portfolio levels and to ensure that risk procedures are adhered to in a manner consistent with the Bank's credit policy. The Bank manages limits and controls concentration of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries.

The Bank manages credit risk through diversification of investment activities to avoid undue concentrations of risks in specific locations or industry segments. The Bank also monitors credit exposures by limiting transactions with specific counterparties, and continually assesses the creditworthiness of counterparties.

The carrying amount of financial assets represents the maximum credit exposure.

For risk management purposes, credit risk arising on financial assets at fair value through profit or loss is managed independently, and reported as a component of market risk exposure.

The Bank's credit risk management framework includes:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Credit Manager, the Head of Credit, Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing all credit exposures in excess of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for available-for- sale investments).
- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading system consists of seven grades reflecting various degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/ committee as appropriate. Risk grades are subject to regular reviews.
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

In addition, the Bank manages the credit exposure by obtaining collateral where appropriate and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk. Credit risk in respect of derivative financial instruments, if any, is limited to those with positive fair values.

4 Risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.1 Maximum exposure to credit risk before collateral held or other credit enhancements

Collateral risk

Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations. Credit policy and procedures set out the acceptable types of collateral, as well as a process by which additional instruments and/or asset types can be considered for approval.

As at 31 December 2017, the Bank held credit risk mitigants with an estimated value of AED 103,969 thousand *(2016: AED 135,229 thousand)* against receivables from Loans and advances, Murabaha, Ijarah and Estisnaa contracts and investments in the form of real estate collateral, other securities over assets, cash deposits and guarantees. The Bank accepts sovereign guarantees and guarantees from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals. Collateral generally is not held against Placements with banks and other financial institutions, and no such collateral was held at 31 December 2017 or 31 December 2016.

The table below stratifies credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio.

	2017 **AED'000**	2016 AED'000
LTV ratio		
Less than 50%	-	6,809
51 – 70%	**51,858**	8,108
71 – 90%	**35,685**	7,548
91 – 100%	**302,467**	76,283
	390,010	98,748

Credit risk exposures relating to the statement of financial position assets are as follows:

	2017 **AED'000**	2016 AED'000
Cash and balances with the UAE Central Bank	**238,188**	160,412
Due from banks	**3,653,455**	4,337,154
Loans and advances	**578,683**	331,901
Murabaha, Ijarah and Estisnaa contracts	**83,476**	69,279
Available-for-sale financial assets – debt instruments	**187,587**	182,019
Other assets – interest receivable	**6,226**	23,796
	4,747,615	5,104,561

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2017 and 31 December 2016, without taking into account any collateral held or other credit enhancements attached. For statement of financial position, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

4 Risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.1 Maximum exposure to credit risk before collateral held or other credit enhancements *(continued)*

Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentration of credit risk at the reporting date by sectors is shown below.

	Public sector AED'000	**Financial sector AED'000**	**Private sector AED'000**	**Total AED'000**
31 December 2017				
Cash and balances with the UAE Central Bank	**238,188**	**-**	**-**	**238,188**
Due from banks	**-**	**3,653,455**	**-**	**3,653,455**
Loans and advances	**102,806**	**74,117**	**401,760**	**578,683**
Murabaha, Ijarah and Estisnaa contracts	**48,934**	**-**	**34,542**	**83,476**
Available-for-sale financial assets	**-**	**380,932**	**8,285**	**389,217**
Financial assets at fair value through profit or loss	**-**	**6,013**	**174,400**	**180,413**
Other assets	**1,115**	**5,111**	**21,747**	**27,973**
	391,043	**4,119,628**	**640,734**	**5,151,405**

	Public sector AED'000	Financial sector AED'000	Private sector AED'000	Total AED'000
31 December 2016				
Cash and balances with the UAE Central Bank	160,412	-	-	160,412
Due from banks	-	4,337,154	-	4,337,154
Loans and advances	114,901	74,857	142,143	331,901
Murabaha, Ijarah and Estisnaa contracts	63,267	-	6,012	69,279
Available-for-sale financial assets	-	359,923	12,311	372,234
Financial assets at fair value through profit or loss	-	15,194	182,432	197,626
Other assets	1,191	22,605	9,455	33,251
	339,771	4,809,733	352,353	5,501,857

4 Risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.1 Maximum exposure to credit risk before collateral held or other credit enhancements *(continued)*

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentration of credit risk at the reporting date by geographical location is shown below.

	UAE AED'000	**GCC AED'000**	**North America AED'000**	**Others AED'000**	**Total AED'000**
31 December 2017					
Cash and Balances with the UAE Central bank	**238,188**	**-**	**-**	**-**	**238,188**
Due from banks	**3,653,455**	**-**	**-**	**-**	**3,653,455**
Loans and advances	**545,473**	**33,210**	**-**	**-**	**578,683**
Murabaha, Ijarah and Estisnaa Contracts	**49,558**	**-**	**2,148**	**31,770**	**83,476**
Available-for-sale investments	**374,429**	**14,788**	**-**	**-**	**389,217**
Financial assets at fair value through profit or loss	**180,413**	**-**	**-**	**-**	**180,413**
Other assets	**27,746**	**227**	**-**	**-**	**27,973**
	5,069,262	**48,225**	**2,148**	**31,770**	**5,151,405**

	UAE AED'000	GCC AED'000	North America AED'000	Others AED'000	Total AED'000
31 December 2016					
Cash and Balances with the UAE Central bank	160,412	-	-	-	160,412
Due from banks	4,337,154	-	-	-	4,337,154
Loans and advances	297,951	33,950	-	-	331,901
Murabaha,Ijarah and Estisnaa Contracts	30,047	-	2,506	36,726	69,279
Available-for-sale investments	352,084	20,150	-	-	372,234
Financial assets at fair value through profit or loss	188,544	-	-	9,082	197,626
Other assets	31,497	1,754	-	-	33,251
	5,397,689	55,854	2,506	45,808	5,501,857

4 Risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.2 Loans and advances to customers and amounts due from banks

Loans and advances to customers and amounts due from banks are summarised as follows:

	31 December 2017		31 December 2016	
	Loans, Murabaha Ijara and Estisnaa contracts AED'000	**Amounts due from banks AED'000**	**Loans, Murabaha Ijara and Estisnaa contracts AED'000**	**Amounts due from banks AED'000**
Neither past due nor impaired	**580,555**	**3,653,455**	280,410	4,337,154
Past due but not impaired	**2,815**	-	6,126	-
Individually impaired	**271,003**	-	281,425	-
Gross	**854,373**	**3,653,455**	567,961	4,337,154
Less: allowance for impairment	**(188,614)**	-	(164,910)	-
Interest in suspense	**(3,600)**	-	(1,871)	-
Net	**662,159**	**3,653,455**	401,180	4,337,154
Neither past due nor impaired				
Loans and advances	**497,079**	-	211,131	-
Murabaha and Estisnaa contracts	**83,476**	-	69,279	-
Due from other banks	-	**3,653,455**	-	4,337,154
Gross	**580,555**	**3,653,455**	280,410	4,337,154
Less: collective allowance	**(25,320)**	-	(17,999)	-
Net	**555,235**	**3,653,455**	262,411	4,337,154

The credit quality of the portfolio of loans and advances, and Murabaha, Ijarah and Estisnaa contracts that were neither past due nor impaired are assessed individually by the Bank.

Neither past due nor impaired

Credit risk, both on and off statement of financial position, is actively managed and monitored in accordance with defined credit policies and procedures. The creditworthiness of each counter party is evaluated and appropriate credit limits are established. To reduce individual counterparty credit risk, the Bank ensures, whenever necessary, that all loans are secured by acceptable forms of collateral. Established limits and actual levels of exposure are regularly reviewed and updated by management. Credit review procedures are designed to identify at an early stage exposures which require more detailed monitoring and review.

4 Risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.2 Loans and advances to customers and amounts due from banks *(continued)*

Past due but not impaired

Loans and advances more than 360 days past due are not considered impaired, unless other information is available to indicate the contrary.

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	31 December 2017			31 December 2016		
	Loans and advances AED'000	Murabaha and Estisnaa contracts AED'000	Total AED'000	Loans and advances AED'000	Murabaha and Estisnaa contracts AED'000	Total AED'000
Past due up to 30 days	-	-	-	3,185	-	3,185
Past due 30 - 90 days	-	-	-	-	-	-
Past due 90 - 360 days	2,815	-	2,815	-	-	-
Past due over 360 days	-	-	-	2,941	-	2,941
Total	**2,815**	-	**2,815**	6,126	-	**6,126**
Fair value of collateral	**4,000**	-	**4,000**	**10,000**	-	**10,000**

The valuations of the fair value of the collaterals are not up to date in certain cases and may not reflect the true value that could be realised if this is requested. However, management of the Bank believes that the fair value of the collaterals exceeds the carrying amount of the past due loans.

Individually impaired

The breakdown of the gross amount of individually impaired loans and advances, loans to financial institutions and Islamic contracts, along with the fair value of related collateral held by the Bank as security, are as follows:

	31 December 2017			31 December 2016		
	Loans and advances AED'000	Murabaha and Estisnaa contracts AED'000	Total AED'000	Loans and advances AED'000	Murabaha and Estisnaa contracts AED'000	Total AED'000
Individually impaired loans / Islamic finance contracts	264,982	6,021	**271,003**	268,999	6,021	**275,020**
Fair value of collateral	(94,119)	-	**(94,119)**	(61,260)	-	**(61,260)**
	170,863	**6,021**	**176,884**	**207,739**	**6,021**	**213,760**

Impaired Murabaha and Estisnaa are fully provided for *(Note 8)*.

4 Risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.3 Concentration of risks of financial assets with credit risk

Concentration Risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentration of credit risk is controlled and managed accordingly.

4.3 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. Management of the Bank meet on a regular basis to monitor and manage market risks.

Price risk

The Bank is exposed to equity securities price risk because of investments held by the Bank and classified on the statement of financial position either as available-for-sale or at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Bank diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the management.

The table below summarizes the impact of a 10% increase / decrease of the prices of this portfolio, on the Bank's results and equity for the year ended 31 December 2017. The analysis is based on the assumptions that all other variables will remain constant and where applicable, the Bank's investments moved according to the historical correlation of the relevant index.

	Impact on results and equity of the Bank	
	2017	2016
	AED'000	AED'000
± 10 % change in equity prices:		
Other comprehensive income	**± 20,163**	± 16,004

4 Risk management *(continued)*

4.3 Market risk *(continued)*

Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank's management monitors interest rates on a regular basis.

Interest sensitivity of assets and liabilities

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is assessed by measuring the impact of reasonable possible change in interest rate movements.

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Bank manages this risk principally thorough monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities with this regard.

A portion of the Bank's assets and liabilities are re-priced within three months. Accordingly, there is a limited exposure to interest rate risk in this regard.

The effective interest rate of a monetary financial instrument is the rate that, when applied in a present value calculation of future contractual cash flows, results in the carrying amount of the instrument. The rate is an original effective interest rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating instrument or an instrument carried at fair value.

The following table sets out the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

4 Risk management *(continued)*

4.3 Market risk *(continued)*

At 31 December 2017	Up to 3 months AED'000	3 - 12 months AED'000	Non-interest sensitive AED'000	Total AED'000
Assets				
Cash and balances with the UAE Central Bank	-	-	238,188	238,188
Due from other banks	2,520,000	1,010,000	123,455	3,653,455
Loans and advances	-	571,147	7,536	578,683
Murabaha, Ijarah and Estisnaa contracts	-	83,476	-	83,476
Available-for-sale financial assets	-	187,587	201,630	389,217
Financial assets at fair value through profit or loss	-	-	180,413	180,413
Total	2,520,000	1,852,210	751,222	5,123,432
Liabilities				
Deposits from Governmental institutions	-	-	-	-
Other liabilities	-	-	70,052	70,052
Funds of Sheikh Zayed Housing Program	2,374,794	-	-	2,374,794
Total	2,374,794	-	70,052	2,444,846
Net gap	145,206	1,852,210	681,170	2,678,586

At 31 December 2016	Up to 3 months AED'000	3 - 12 months AED'000	Non-interest sensitive AED'000	Total AED'000
Assets				
Cash and balances with the UAE Central Bank	-	-	160,412	160,412
Due from other banks	2,600,000	1,640,000	97,154	4,337,154
Loans and advances	-	33,950	297,951	331,901
Murabaha, Ijarah and Estisnaa contracts	-	69,279	-	69,279
Available-for-sale financial assets	-	182,019	190,215	372,234
Financial assets at fair value through profit or loss	-	-	197,626	197,626
Total	2,600,000	1,925,248	943,358	5,468,606
Liabilities				
Deposits from Governmental institutions	2,200,000	-	-	2,200,000
Other liabilities	-	-	63,951	63,951
Funds of Sheikh Zayed Housing Program	607,563	-	-	607,563
Total	2,807,563	-	63,951	2,871,514
Net gap	(207,563)	1,925,248	879,407	2,597,092

4 Risk management *(continued)*

4.3 Market risk *(continued)*

Interest rate risk is assessed by measuring the impact of reasonable possible change in interest rate movements. The Bank assumes a fluctuation in EIBOR rates of 25 basis points (bps) and estimates the following impact on the net profit for the year and net assets at that date, with all other variables held constant:

	2017	2016
	AED'000	AED'000
Effect of a +/- 25 bps change in EIBOR		
Gain or (loss)	**+/- 3,197**	+/- 3,839

The interest rate sensitivities set out above employ simplified scenarios. They are based on AED 4,185 million *(2016: AED 4,343 million)* interest bearing assets and AED 2,375 million *(2016: AED 2,808 million)* interest bearing liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Bank's functional currency is the UAE Dirham. Positions are closely monitored and strategies are used to ensure positions are maintained within established limits.

The Bank's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure.

At 31 December 2017, the Bank had net exposures denominated in foreign currencies amounting to AED 268,765 thousand *(2016: AED 221,948 thousand).*

Management of market risks
Overall authority for market risk is vested in ALCO which sets up limits for each type of risk in aggregate and for portfolios. Management responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

4.4 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to fulfil commitments to lend. The Bank's liquidity risk monitoring process is performed by Bank's management.

The following table analyses the under establishment banks' assets and liabilities into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contracted maturity date:

4 Risk management *(continued)*

4.4 Liquidity risk *(continued)*

At 31 December 2017	Up to 12 months AED'000	Over 12 months AED'000	Unspecified maturity AED'000	Total AED'000
Assets				
Cash and balances with the UAE Central Bank	238,188	-	-	238,188
Due from other banks	3,653,455	-	-	3,653,455
Loans and advances	39,653	505,820	33,210	578,683
Murabaha, Ijarah and Estisnaa contracts	15,104	68,372	-	83,476
Available-for-sale financial assets	5,952	181,635	201,630	389,217
Financial assets at fair value through profit or loss	-	-	180,413	180,413
Total	3,952,352	755,827	415,253	5,123,432
Liabilities				
Deposits from Governmental institutions	-	-	-	-
Other liabilities	-	-	70,052	70,052
Funds of Sheikh Zayed Housing Program	2,374,794	-	-	2,374,794
Total	2,374,794	-	70,052	2,444,846
Net liquidity availability	1,577,558	755,827	345,201	2,678,586

At 31 December 2016	Up to 12 months AED'000	Over 12 months AED'000	Unspecified maturity AED'000	Total AED'000
Assets				
Cash and balances with the UAE Central Bank	160,412	-	-	160,412
Due from other banks	4,337,154	-	-	4,337,154
Loans and advances	25,048	231,996	74,857	331,901
Murabaha, Ijarah and Estisnaa contracts	14,332	48,935	6,012	69,279
Available-for-sale financial assets	-	182,019	190,215	372,234
Financial assets at fair value through profit or loss	-	-	197,626	197,626
Total	4,536,946	462,950	468,710	5,468,606
Liabilities				
Deposits from Governmental institutions	2,200,000	-	-	2,200,000
Other liabilities	-	-	63,951	63,951
Funds of Sheikh Zayed Housing Program	607,563	-	-	607,563
Total	2,807,563	-	63,951	2,871,514
Net liquidity availability	1,729,383	462,950	404,759	2,597,092

4 Risk management *(continued)*

4.4 Liquidity risk *(continued)*

Maturity of assets and liabilities is determined on the basis of the remaining period from the date of the statement of financial position to the contractual maturity date.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

4.5 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Management is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall standards for the management of operational risk.

4.6 Capital risk management

The Bank's objectives when managing capital is to safeguard the Bank's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Bank is not exposed to capital risk due to the availability of surplus funds.

4.7 Fair value hierarchy

All financial assets and liabilities are measured at amortised cost except for available-for-sale investments and financial assets at fair value through profit or loss which are measured at fair value by reference to published price quotations in an active market.

4 Risk management *(continued)*

4.7 Fair value hierarchy *(continued)*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Bank is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

The carrying values of financial assets and financial liabilities of the Bank approximate their fair values. The nominal values less impairment provision of loans, Murabaha and Estisnaa contracts approximate their fair values.

The Bank has adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - Inputs other than quoted prices included within level 1 that are observable for asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Bank measures the fair values of its quoted available-for-sale investments and financial assets at fair value through profit or loss using the quoted market price (unadjusted) in active market for an identical instrument (level 1). For the unquoted and managed funds, the Bank measures its fair value based on level 3. No movements or reclassification between levels of fair values took place during the year.

The fair values of balance with the Central Bank of the UAE, due from banks, loans to and deposits from governmental authorities and funds of Sheikh Zayed Housing Program, which are predominantly short term in tenure and issued at market rates, are considered to reasonably approximate their book value. The Bank estimates that the fair value of its Ijarah and Estisna portfolios not to be materially different from its book value since all of these balances carry floating market rates of interest and are re-priced on semiannual basis.

The following table presents the Bank's accounts that are measured at fair value hierarchy:

	AED'000			
	Level 1	**Level 2**	**Level 3**	**Total**
At 31 December 2017				
Available-for-sale financial assets	363,817	-	25,400	**389,217**
Financial assets at fair value through profit or loss	-	-	180,413	**180,413**
Investment properties	-	-	571,720	**571,720**
At 31 December 2016				
Available-for-sale financial assets	342,059	-	30,175	**372,234**
Financial assets at fair value through profit or loss	-	-	197,626	**197,626**
Investment properties	-	-	591,040	**591,040**

4 Risk management *(continued)*

4.7 Fair value hierarchy *(continued)*

Measurement of fair values *(continued)*

4.7.1 *Valuation techniques and significant unobservable inputs*

The following table shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Unquoted Equities	*Market comparison technique:* The valuation model is based on market multiples derived fron quoted prices of companies comparable to the investee and the expected EBITDA of the investee. The estimate is adjusted for the effect of non-marketability of the equity securities.	EBITDA / Forecasted EBITDA	The estimated fair value would increase (decrease) if: • the annual revenue growth rate were higher (lower); • the EBITDA margin were higher (lower); or • the adjusted market multiple were higher (lower). Generally, a change in the annual revenue growth rate is accompanied by a directionally similar change in EBITDA margin.

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Investment properties	Discounted cash flows	• Site affection plans. • Floor plans.

4 Risk management *(continued)*

4.7 Fair value hierarchy *(continued)*

4.7.2 *Level 3 fair values*

Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

	2017 AED'000	2016 AED'000
Investment properties		
Balance as at 1 January	**591,040**	584,280
Disposal during the year	-	13,152
Loss from change in fair value of investment properties	**(19,320)**	(6,392)
Balance as at 31 December	**571,720**	591,040

	2017 AED'000	2016 AED'000
Unquoted equities		
Available-for-sale financial assets		
Balance as at 1 January	**30,175**	31,508
Transfer to level 1	**(3,017)**	-
Loss from change in fair value of available-for-sale of financial assets	**(1,758)**	(1,333)
Balance as at 31 December	**25,400**	30,175
Financial assets at fair value through profit or loss		
Balance as at 1 January	**197,626**	170,843
Disposal	**(18,253)**	-
Fair value change	**1,040**	26,783
Balance as at 31 December	**180,413**	197,626

5 Critical accounting estimates and judgments

The Bank makes estimates and assumptions primarily relating to impairment losses on loans and advances as well as impairment losses on Murabaha, Ijarah, and Estisnaa contracts which affect reported amounts of assets and results of operations. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events, which although are believed to be reasonable under the circumstances, could result in a material adjustment to the carrying amounts of assets in the next financial period.

(a) *Impairment losses on loans, Murabaha, Ijarah and Estisnaa*

The Bank reviews its loan portfolios as well as Murabaha, Ijarah and Estisnaa contracts to assess impairment at least on a yearly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be attributed to an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience and objective evidence of impairment when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the provision estimates differ by +/- 5%, profit for the year would decrease or increase by AED 4.1 million *(2016: AED 3.2 million).*

(b) *Impairment of available-for-sale financial assets*

The Bank follows the guidance of International Accounting Standard "Financial Instruments: Recognition and Measurement" IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(c) *Impairment of placements with investment companies*

An estimate of the collectible amount and present value of placements is made when collection of the full amount is extended, negotiated, or no longer probable due to the credit deterioration of the investment company. For individually significant amounts, this estimation is performed on an individual basis by discounting estimated cash flows to its present value and taking into consideration a reasonable risk factor on the default of the counterparty.

(d) *Impairment of property and equipment*

The Bank assesses impairment of its property and equipment on a continuous basis by comparing its fair value based on the latest valuation performed by external valuer. This value will be compared to the carrying amount of property and equipment to ascertain any probable impairment. Where property and equipment is determined to have a significant decline in fair value that could indicate impairment, the Bank adjusts the carrying amount of its properties and equipment to its recoverable amount / fair value.

6 Due from other banks

	2017 AED'000	2016 AED'000
Placements	**3,530,000**	4,240,000
Current and call accounts	**123,455**	97,154
	3,653,455	4,337,154

Placements include deposits received by the Bank from Sheikh Zayed Housing program amounting to AED Nil *(2016: AED 2.2 billion) (Note 14)*.

7 Loans and advances

	2017 AED'000	2016 AED'000
Loans and advances*	**226,628**	244,198
Loans to financial institutions**	**148,238**	149,716
Housing Loans	**390,010**	98,748
Total loans and advances	**764,876**	492,662
Less: allowance for impairment	**(182,593)**	(158,889)
Less: interest in suspense	**(3,600)**	(1,872)
Balance at 31 December	**578,683**	331,901

* The balance of loans and advances includes loans which are granted for industrial projects and related services at a value of AED 54 million *(31 December 2016: AED 59 million)* in the United Arab Emirates. Loans are generally granted at a fixed interest rate of 3% to 6% *(31 December 2016: 2% to 6%)* per annum.

Loans and advances balance also includes real estate loans worth of AED 103 million *(31 December 2016: 115 million)* which had been granted by Real Estate Bank in 2010 (now part of the Emirates Development Bank) over three loans amounting to AED 170 million to a government entity to acquire properties in the United Arab Emirates. These loans are subject to interest rate of 3 months EIBOR plus a fixed margin up to 3.25%. These loans were granted a grace period of two years from the date of the withdrawal. The grace period began from the date of first withdrawal in 2010.

During 2017, the bank consolidated these three loans within new structure carrying an interest rate of three months EIBOR plus a fixed premium of 1.5%.

7 Loans and advances *(continued)*

The maturities of these loans are as follows:

	2017 **AED'000**	2016 AED'000
One year	**12,095**	12,095
Between 2 and 5 years	**48,379**	48,379
More than 5 years	**42,332**	54,427
	102,806	114,901

The total non-performing loans amounted to AED 116 million *(31 December 2016: AED 118 million)*. The provisions balance held against those loans amounted to AED 83 million *(31 December 2016: AED 66 million)* and the suspended interest amounted to AED 2 million as at 31 December 2017 *(31 December 2016: AED 1 million)*. Interests are suspended on loans that become past due over 90 days unless management's assessment that is based on objective evidence or cumulative historical data that indicates otherwise.

Movement in provision for impairment of loans:

	2017 **AED'000**	2016 AED'000
Balance at 1 January	**158,889**	149,087
Additional specific provisions	**16,383**	1,802
Collective provision	**7,321**	8,000
	182,593	158,889

**Loans to financial institutions originally represented placements, that had no related collaterals and were individually impaired, with Amlak Finance and Global Investment House amounting to AED 148,236 thousand *(31 December 2016: AED 149,716 thousand)* that have been renegotiated during 2014 and transferred to loans to financial institutions. The provision provided on these loans amounted to AED 74,120 thousand *(31 December 2016: AED 74,859 thousand)*. During the year 2016 the Bank reclassified the element related to Amlak contingent convertible instrument into available-for-sale portfolio which amounted to AED 18 million and was fully provided for.

7 Loans and advances *(continued)*

By industrial economic sector:

	2017 AED'000	2016 AED'000
Financial services	**148,238**	149,717
Food and beverages	**671**	6,907
Nonmetallic mineral products	**110,796**	111,651
Basic metals	**-**	2,038
Chemical products	**3,218**	4,218
Real estate	**492,816**	178,168
Other	**9,137**	39,962
	764,876	492,661
Less: provisions and interest in suspense	**(186,193)**	(160,760)
	578,683	331,901

	2017 AED'000	2016 AED'000
Doubtful	**150,242**	151,689
Loss	**114,740**	123,715
Outstanding	**264,982**	275,404
Less: specific allowance for impairment	**(182,593)**	(158,889)
Carrying amount	**82,389**	116,515

8 Murabaha, Ijarah and Estisnaa contracts

	2017 AED'000	2016 AED'000
Murabaha and Estisnaa contracts	**19,726**	24,720
Ijarah contracts (a)	**68,023**	48,832
Total Murabaha	**87,749**	73,552
Less: provision for impairment	**(4,273)**	(4,273)
Net Murabaha, Ijarah and Estisnaa contracts	**83,476**	69,279

By economic sector:

	2017 AED'000	2016 AED'000
Real estate	**83,476**	63,267
Others	**4,273**	10,285
	87,749	73,552

8 Murabaha, Ijarah and Estisnaa contracts *(continued)*

Movement in provision for impairment:

	2017 AED'000	2016 AED'000
Balance at 1 January	**4,273**	4,273
Charge for the period	-	-
	4,273	4,273

	2017 AED'000	2016 AED'000
Substandard	-	-
Doubtful	-	-
Loss	4,273	4,273
Outstanding		
Less: specific allowance for impairment	**(4,273)**	(4,273)
Carrying amount	-	-

a) Ijarah contracts

	2017 AED'000	2016 AED'000
Gross investment in Ijarah	**85,062**	53,166
Less: deferred Ijarah profits	**(17,039)**	(4,334)
	68,023	48,832

Emirates Development Bank (through previously separate Real Estate Bank and Emirates Industrial Bank) has entered into several Ijarah contracts with Emirates Real Estate Corporation through which the Bank financed the acquisition of properties in various countries. These properties were registered in the name of the UAE Ministry of Foreign Affairs in accordance with the existing requirements of their respective countries. Lease rentals bear floating six-month Emirates Inter Bank Offered Rates ("EIBOR") in addition to a fixed premium. Net present value of minimum Ijarah payments is calculated assuming that prevailing interest rates of 1% plus EIBOR as at the Ijarah agreements date will persist.

8 Murabaha, Ijarah and Estisnaa contracts *(continued)*

	31 December 2017	
	Minimum Ijarah payments AED'000	**Present value of minimum Ijarah payments AED'000**
Within one year	11,418	9,286
2 years to 5 years	41,270	34,257
More than five years	32,374	24,480
	85,062	**68,023**

	31 December 2016	
	Minimum Ijarah payments AED'000	**Present value of minimum Ijarah payments AED'000**
Within one year	9,451	8,514
2 years to 5 years	36,172	32,968
More than five years	7,542	7,350
	53,165	48,832

Annual fixed installment due from Ijarah contracts is AED 11,418 thousand *(2016: AED 9,451 thousand).*

An interest rate of 1% + EIBOR has been taken as the interest rate implicit in the Ijarah being the Internal Rate of Return based on the management's estimation. Income from Ijarah contracts is recognised based on a pattern reflecting a variable periodic rate of return on the Bank's net investment in the Ijarah.

The Bank is permitted to sell or re-pledge the collateral in the case of default by the lessee.

Ijarah contracts receivable balances are secured by the mortgage over the Ijarah properties and in the case of contracts with governmental agencies the Government implicit guarantee.

The gross amount of non-performing Murabaha, Ijarah and Estisnaa contracts amounted to AED 6,021 thousand *(31 December 2016: AED 6,021 thousand),* which are fully provided for.

9 Available-for-sale financial assets

	2017 AED'000	2016 AED'000
Balance at 1 January	**372,234**	410,165
Additions	**10,338**	-
Revaluation reserve	**1,076**	(14,585)
Movement of fixed income portfolios	**5,569**	(23,346)
Balance as at 31 December	**389,217**	372,234

The available-for-sale financial investments are denominated in UAE Dirhams, except for bonds which are denominated to US Dollars and comprises of the following:

	2017 AED'000	2016 AED'000
Bonds	**187,587**	182,019
Quoted shares	**176,230**	160,040
Un-quoted shares	**25,400**	30,175
	389,217	372,234

Quoted shares
Quoted shares include bonus shares received by the Bank with fair value of AED Nil as of 31 December 2017 *(2016: AED 0.12 million)*.

Un-quoted shares
Un-quoted shares are carried at fair value.

10 Financial assets at fair value through profit or loss

	2017 AED'000	2016 AED'000
Balance at 1 January	**197,626**	170,843
Disposals	**(18,253)**	-
Fair value change	**1,040**	26,783
	180,413	197,626

Financial assets at fair value through profit or loss are all investments in unquoted companies. Changes in fair value of financial assets at fair value through profit or loss are recognised in other operating income in the statement of profit or loss and other comprehensive income.

11 Investment properties

Investment properties comprise of the following:

	Land AED'000	Buildings AED'000	Properties under development AED'000	Total AED'000
At December 2015	**118,500**	**367,130**	**98,650**	**584,280**
Revaluation gain / (loss)	716	(10,328)	3,220	(6,392)
Title deed	1,604	11,548	--	13,152
At December 2016	**120,820**	**368,350**	**101,870**	**591,040**
Revaluation gain / (loss)	580	(13,850)	(6,050)	(19,320)
At December 2017	**121,400**	**354,500**	**95,820**	**571,720**

The above investment properties are located in various Emirates within the UAE as follows:

	Abu Dhabi AED'000	Dubai AED'000	Ajman AED'000	Total AED'000
Land & properties under Development	41,000	172,820	3,400	217,220
Buildings	243,500	111,000	-	354,500
At December 2017	**284,500**	**283,820**	**3,400**	**571,720**

	Abu Dhabi AED'000	Dubai AED'000	Ajman AED'000	Total AED'000
Land & properties under development	40,600	179,460	2,630	222,690
Buildings	270,000	98,350	-	368,350
At December 2016	**310,600**	**277,810**	**2,630**	**591,040**

Investment properties are stated at fair value, which have been determined based on valuations performed by an industry specialist as at 31 December 2017.

The fair values have not been determined based on transactions observable in the market except valuation of land because of the lack of comparable data given current economic conditions but instead have been based on a valuation model in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards ("RICS"). The valuation, which conforms to RICS and the relevant statements of the International Valuations Standards, was arrived at by using recognised valuation methods comprising the comparable method of valuation, the investment valuation method and the residual valuation method.

11 Investment properties *(continued)*

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Company and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

During 2016, the Bank obtained title deed on a plot of land amounted AED 11.5 million.

Investment properties under development value includes, an amount of AED 43.8 million *(2016: AED 43.8 million)* being costs incurred to date on foundation and earthworks.

Income from investment properties – Net:

	2017 AED'000	2016 AED'000
Rental income	**26,041**	31,187
Service charges	**(6,152)**	(6,004)
	19,889	25,183

Rental income from investment properties are disclosed as other operating income *(Note 23)*.

12 Other assets

	2017 AED'000	2016 AED'000
Prepayments and other assets	**21,747**	9,455
Interest receivable	**6,226**	23,796
	27,973	33,251

13 Property and equipment

	Buildings AED'000	Furniture and fixtures AED'000	Computers AED'000	Motor vehicles AED'000	Work-in-progress AED'000	Total AED'000
Cost						
At 1 January 2016	75,736	11,432	30,709	460	2,028	120,365
Additions	9,222	3	165	-	1,074	10,464
Disposal						
Adjustments	-	-	737	-	(737)	-
At 31 December 2016	**84,958**	**11,435**	**31,611**	**460**	**2,365**	**130,829**
Additions	-	35	235	300	5,009	5,579
Adjustments	-	(5)	-	-	-	(5)
Transfers	-	-	1,622	-	(1,622)	-
At 31 December 2017	**84,958**	**11,465**	**33,468**	**760**	**5,752**	**136,403**
Accumulated depreciation						
At 1 January 2016	**26,522**	**8,911**	**14,074**	**460**	-	**49,967**
Charge for the year	6,036	1,062	4,267	-	-	11,365
Disposal	-	-	-	-	-	-
At 31 December 2016	**32,558**	**9,973**	**18,341**	**460**	-	**61,332**
Charge for the year	6,036	926	4,642	5	-	11,609
Adjustments	(5)	-	-	-	-	(5)
At 31 December 2017	**38,589**	**10,899**	**22,983**	**465**	-	**72,936**
Net book value						
At 31 December 2017	**46,369**	**566**	**10,485**	**295**	**5,752**	**63,467**
At 31 December 2016	52,400	1,462	13,270	-	2,365	69,497

The buildings above include plots of lands at a nominal amount of AED 1 as follows:

The Bank's building in Abu Dhabi is constructed on land granted by the government of Abu Dhabi in the year 2000 for no consideration. This land is booked at nominal amount of AED 1. The Bank carried a valuation by an external valuer on its Abu Dhabi building including the land as of 31 December 2017. The fair value at that date amounted to AED 47.5 million *(2016: AED 52 million)*.

The Bank's building in Dubai is constructed on a land granted by the government of Dubai in the year 2000 for no consideration. The book value of this land is booked at nominal amount of AED 1. The Bank carried a valuation by an external valuer on its Dubai building including the land as of 31 December 2017. The fair value as of that date amounted to AED 47 million *(2016: AED 53.5 million)*.

In 2001, the government of Ras Al Khaimah granted the Bank a plot of land in Ras Al Khaimah for no consideration, subject to constructing a Branch. The book value of this land is booked at nominal amount of AED 1.

Property and equipment included fully depreciated items with cost amounting to AED 22.7 million as of 31 December 2017 *(2016: AED 21.9 million)*.

14 Deposits from governmental institutions

	2017 AED'000	2016 AED'000
Sheikh Zayed Housing Program	-	2,200,000
	-	2,200,000

As at year-end, the balances for Sheik Zayed Housing Program were not transferred from the call account to the deposits account.

15 Other liabilities

	2017 AED'000	2016 AED'000
Accrual for Directors' remuneration	**425**	1,670
Accrual for staff costs and others	**3,192**	1,718
Amounts collected towards re-financed loans of Settlement Committee	-	10,689
Deferred income from rents	**9,140**	10,957
Others	**57,295**	38,917
	70,052	63,951

The total amount recovered from loans re-financed by the Settlement Committee amounted to AED Nil *(2016: AED 10.7 million)*. These amounts have been transferred to share capital during the year.

16 Funds from governmental institutions

	2017 AED'000	2016 AED'000
Ministry of Finance – Sheikh Mohammed Bin Rashid Innovation Fund	**50,000**	-
Sheikh Zayed Housing Program	**2,324,794**	607,563
	2,374,794	607,563

Sheikh Zayed Housing Program

Pursuant to the Federal Law No. (10) of 2009 relating to the Sheikh Zayed Housing Program ("the Program") and with its regulations issued by UAE Cabinet Resolution No. (9) of 2011, the Bank and the Program signed an agreement for the provision of banking, financial and investment management services on 8 March 2015.

This agreement lays out specific services that are to be provided by the Bank to the program, the terms and conditions the services are to be provided under, key performance indicators that will be used to assess the Bank's performance, the Bank's and Program's rights and responsibilities and details the fees that are to be charged by the Bank to the Program in exchange.

16 Funds from governmental institutions *(continued)*

Sheikh Zayed Housing Program *(continued)*

The services to be provided include receiving funds pertaining to the Program and providing these funds to beneficiaries in the form of housing loans, as per the terms agreed by the Program and beneficiary, then administering the loans as per agreement. Additionally the Bank is to make progress disbursements for housing projects and other financial aid to UAE nationals as well as manage the recovery services of the loans.

The Ministry of Finance transfers the funds allocated to the Program to the current account of the Bank with the Central Bank of the UAE. The Program earns interest on the funds invested with the Bank as per the agreement signed. The effective average interest rate earned on the funds during the period was 0.5% *(2016: 0.47%)*.

The substantial risk and rewards associated with the Program's funds rest with the Bank. Therefore, the funds of the Program under the management of the Bank are disclosed as part of the assets (call account and placements) of the Bank. The Program loans, however, do not carry any risk to the Bank and therefore are not included in the Bank's statement of financial position.

Ministry of Finance – Sheikh Mohammed bin Rashid Innovation Fund

The Mohammed Bin Rashid Innovation Fund ("the fund") is a government initiative created by the United Arab Emirates prime minister, His Highness Sheikh Mohammed bin Rashid Al Maktoum, as a fund to finance and foster innovation. The Ministry of Finance ("MoF") was appointed to be responsible for its implementation. EDB was subsequently appointed by the MoF to act as the administrative host and operator. Thus, there is a trilateral agreement between the three parties (the fund, MoF, and the Bank).

The scope of the Bank's responsibilities includes review and comment on the fund's policy, guidelines, and terms and conditions, host and collaborate the development of the fund operating Manual, support in the sourcing and contracting of the Decision and Advisory Committee experts, support in the contracting of strategic partners, promoting and marketing the fund, approve the operations team, manage the fund account, manage the annual report, host and maintain the fund's website, and oversee the operations team's performance.

The fund's annual expenses budget is to be prepared by the Bank and submitted to the MoF, which will in turn pay the Bank on a monthly basis as per the annually agreed expenses budget.

17 Share capital

As per the Federal Law No. 7 the authorized share capital is 10 billion shares at AED 1 each with paid up capital of AED 5 billion required to be fully paid by the Federal Government. The issued share capital at 31 December 2017 comprises of 5,000,000 thousand ordinary shares of AED 1 each (31 December 2016: 5,000,000 thousand ordinary shares of AED 1 each). The shares are not yet fully paid-up.

18 Other reserves

Special reserve

Special reserve is created based on Article 82 of the Federal Law No. 10 for the year 1980 of the Central Bank and monetary system, and according to Article 43 of the Bank's Articles of Association. 10% of the Bank's profit for the year shall be transferred to the legal reserve until it reaches 50% of the nominal value of the paid up share capital.

Proposed capital increase

Article (27) of Law No. (1) of 1981 relating to the Incorporation of the Real Estate Bank specified that the responsibilities and authority of the National Housing Council, which were established by virtue of Law No. (6) for the year 1979 and its principle responsibilities relating to granting loans to UAE nationals for constructing residential properties, shall be transferred to the Emirates Development Bank. Furthermore, the article stated that the responsibilities, authorities and rights of the Settlement Committee, which relates to the settlement of real estate loans given to the UAE Nationals by commercial banks within the UAE as per the Ministerial Decree No. (2) of 1980 Concerning Settlement of Real Estate Loans, shall be transferred to the Real Estate Bank. Thus, these amounts were recognized as a liability until a resolution from the Bank's Board on their treatment and recognition was passed. During 2017, the liability mentioned above was approved to be recognized as paid up capital and there has been a transfer from other liabilities to proposed capital increase amounting to AED 10.7 million. This amount will be added to share capital after ratification of the Board decision by the Cabinet.

19 Commitments and contingent liabilities

The commitments as at the date of the report was as follows:

	2017 AED'000	2016 AED'000
Unwithdrawn credit commitments	**101,833**	49,834

Unwithdrawn credit commitments represents contractual commitments to provide loans and credit facilities. Usually these commitments have fixed expiration dates or other conditions for cancellation and may require payment of a fee. Due to the possibility of an expiration of these commitments without being withdrawn, the total contractual values of these do not necessarily represent future financial obligation.

The bank has no other contingencies and commitments as at the year end.

20 Interest income

	2017 AED'000	2016 AED'000
Bank placements and deposit accounts	**98,266**	109,378
Loans	**17,854**	10,985
Central Bank of the UAE	**144**	26
Loans to governmental establishments	**3,243**	3,350
Fixed income securities	**7,229**	6,594
	126,736	130,333

21 Interest expense

	2017 AED'000	2016 AED'000
Deposits from governmental authorities and Establishments	**-**	6,409
Deposits of Sheikh Zayed Housing Program	**36,804**	34,522
Others	**505**	512
	37,309	41,443

22 Income from investment securities

	2017 AED'000	2016 AED'000
Gain on disposal of investment securities	**1,545**	4,927
Dividend income	**18,922**	15,427
	20,467	20,354

23 Other income

	2017 AED'000	2016 AED'000
Rental income on investment properties	**26,041**	31,188
Service charges	**(6,152)**	(6,004)
Other income	**1,305**	1,592
	21,194	26,776

24 Operating expenses

	2017 AED'000	2016 AED'000
General and administrative expenses	**13,706**	14,010
Depreciation	**11,609**	11,365
	25,315	25,375

25 Related party transactions and balances

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

Related parties comprise key higher management personnel, and their related companies and the institutions and authorities of the federal government. In the normal course of business, the Bank had various transactions with its related parties. Transactions are entered into with related parties on terms and conditions approved by the bank's management. The following summarises transactions and balances with related parties for the period:

a. Loans to governmental establishments amounted to AED 102.8 million *(2016: AED 114.9 million)*.
b. Ijarah and Estisnaa contracts amounted to AED 48.9 million *(2016: AED 63.3 million)*.
c. Funds from Sheikh Zayed Housing Program amounted to AED 2.4 billion (*2016: AED 607 million*), and funds from the Ministry of Finance Innovation Fund amounted to AED 50 million *(2016: AED nil) (Note 16)*.
d. Deposits from governmental authorities and establishments amounted to AED Nil *(2016: AED 2,200 million) (Note 14)*.

The Bank carries out various transactions in the normal course of business with its shareholders, directors and officers and investee companies.

Significant balances and transactions with related parties during the year were as follows:

	2017 AED'000	2016 AED'000
Balances with related parties:		
Loans and advances	**151,740**	178,168
Deposits from governmental institutions	-	2,200,000
Funds from governmental institutions	**2,374,794**	607,563
Key management compensation:		
Key Management compensation	**8,725**	7,192
Transactions with related parties:		
Directors remuneration	**1,700**	1,650
Interest expenses to governmental institutions	**36,804**	34,522

26 Cash and cash equivalents

For the purpose of the cash flows statement, cash and cash equivalents comprise:

	2017	2016
	AED'000	AED'000
Cash and balances with the UAE Central Bank	**238,188**	160,412
Due from other banks – balances with original maturities of three months or less	**2,643,455**	2,697,155
	2,881,643	2,857,567

27 Comparative figures

Certain items have been reclassified, from the Bank's prior year financial statements to conform to the current year's presentation and improve the transparency of certain line items of the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and the notes to the accounts.

Emirates Development Bank

Financial statements

31 December 2016

Principal business address:
P.O. Box: 51515
Abu Dhabi
United Arab Emirates

Emirates Development Bank

Financial statements

Contents	*Page*

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Independent Auditors' Report

To the Shareholder of Emirates Development Bank

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Emirates Development Bank ("the Bank"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Emphasis of matter

Without qualifying our opinion, we draw attention to Article No 6 of the Federal Law Decree No (7) which requires the paid up capital of the Bank to be AED 5 billion. The Bank is not in compliance with the Article as at 31 December 2016.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of Management and Those Charged with Governance for the Financial Statements *(continued)*

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Bank is responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

KPMG

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Lower Gulf Limited

Richard Ackland
Registration No.: 1015
Abu Dhabi, United Arab Emirates
Date: 11 JUN 2017

Emirates Development Bank

Statement of financial position
as at 31 December

	Note	2016 AED'000	2015 AED'000
Assets			
Cash and balances with the UAE Central Bank	*26*	**160,412**	26
Due from banks	*6*	**4,337,154**	5,279,112
Loans and advances	*7*	**331,901**	258,114
Murabaha, Ijarah and Estisnaa contracts	*8*	**69,279**	89,756
Available-for-sale financial assets	*9*	**372,234**	410,165
Financial assets at fair value through profit or loss	*10*	**197,626**	170,843
Investment properties	*11*	**591,040**	584,280
Other assets	*12*	**33,251**	33,749
Property and equipment	*13*	**69,497**	70,398
Total assets		**6,162,394**	6,896,443
Liabilities			
Funds of Sheikh Zayed Housing Program	*16*	**607,563**	326,896
Deposits from governmental institutions	*14*	**2,200,000**	3,300,000
Other liabilities	*15*	**63,951**	54,896
Total liabilities		**2,871,514**	3,681,792
Shareholders' equity			
Share capital	*17*	**2,195,996**	2,195,996
Reserves	*18*	**555,464**	555,464
Retained earnings		**466,515**	375,701
Fair value reserve		**72,905**	87,490
Total shareholders' equity		**3,290,880**	3,214,651
Total liabilities and shareholders' equity		**6,162,394**	6,896,443

H.E. Obaid Humaid Al Tayer
Chairman

Mr. Rashid Mahoob
Acting Chief Executive Officer

The notes on pages 8 to 48 form an integral part of these financial statements.
The independent auditors' report is set out on pages 1 to 3.

Emirates Development Bank

Statement of profit or loss and other comprehensive income
for the year ended 31 December

	Note	**2016 AED'000**	2015 AED'000
Interest income	*20*	**130,333**	96,362
Interest expense	*21*	**(41,443)**	(31,404)
Net interest income		**88,890**	64,958
Profit from Murabaha, Ijarah and Estisnaa		**2,015**	1,817
Income from investment securities	*22*	**47,137**	27,476
Fees and commission income		**9,000**	8,000
Other income	*23*	**20,384**	14,366
Total operating income		**167,426**	116,617
Staff costs		**(34,191)**	(32,937)
Operating and administrative expenses	*24*	**(25,375)**	(27,403)
Provision for impairment on financial instruments		**(17,046)**	-
Profit for the year		**90,814**	56,277
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Change in the fair value of available-for-sale financial assets		**(14,585)**	(44,240)
Total comprehensive income		**(14,585)**	(44,240)
Total profit and comprehensive income		**76,229**	12,037

The notes on pages 8 to 48 form an integral part of these financial statements.
The independent auditors' report is set out on pages 1 to 3.

Emirates Development Bank

Statement of changes in equity

for the year ended 31 December

	Share capital AED'000	Reserves AED'000	Retained earnings AED'000	Fair value reserve AED'000	Total AED'000
Balance at 1 January 2015	2,195,996	544,208	330,680	131,730	3,202,614
Total comprehensive income:					
Net profit for the year	-	-	56,277	-	56,277
Items that may be reclassified subsequently to profit or loss					
Net change in fair value of available-for-sale financial assets	-	-	-	(44,240)	(44,240)
Total comprehensive income for the year	-	-	56,277	(44,240)	12,037
Transferred to reserves *(Note 18)*	-	11,256	(11,256)	-	-
Balance at 31 December 2015	**2,195,996**	**555,464**	**375,701**	**87,490**	**3,214,651**
Balance at 1 January 2016	2,195,996	555,464	375,701	87,490	3,214,651
Total comprehensive income:					
Net profit for the year	-	-	90,814	-	90,814
Items that may be reclassified subsequently to profit or loss					
Net change in fair value of available-for-sale financial assets	-	-	-	(14,585)	(14,585)
Total comprehensive income for the year	-	-	90,814	(14,585)	**76,229**
Transferred to reserves *(Note 18)*	-	-	-	-	-
Balance at 31 December 2016	**2,195,996**	**555,464**	**466,515**	**72,905**	**3,290,880**

The notes on pages 8 to 48 form an integral part of these financial statements.
The independent auditors' report is set out on pages 1 to 3.

Emirates Development Bank

Statement of cash flows
for the year ended 31 December

	Note	2016 AED'000	2015 AED'000
Cash flows from operating activities			
Profit for the year		**90,814**	56,277
Adjustments for:			
Depreciation	*13*	**11,365**	6,269
Net fair value (gain) on financial assets through profit or loss	*10*	**(26,783)**	(12,000)
Fair value loss on valuation of investment properties	*11*	**6,392**	10,775
Dividends income		**(20,354)**	(15,476)
Provision for employees' end of service benefits		**491**	508
Provision for impairment of loans and advances - net		**9,802**	-
		71,726	46,353
Changes in:			
Due from banks maturing after three months		**1,567,000**	(94,000)
Loans and advances		**(53,310)**	82,612
Murabaha, Ijarah and Estisnaa contracts		**-**	3,922
Other assets		**498**	(16,844)
Deposits from governmental authorities and establishments		**(1,100,000)**	1,824,591
Funds of Sheikh Zayed Housing Program		**280,667**	(380,751)
Other liabilities		**8,564**	3,434
Net cash generated from operating activities		**775,145**	1,469,317
Cash flows from investing activities			
Acquisition of property and equipment		**(10,464)**	(32,340)
Net proceeds from sale of investment properties		**(13,152)**	-
Dividend received		**20,354**	15,476
Proceeds from sale of available-for-sale investments		**13,546**	505
Acquisition of investments		**-**	(204,527)
Net cash generated from / (used in) investing activities		**10,284**	(220,886)
Net increase in cash and cash equivalents		**785,429**	1,248,431
Cash and cash equivalents at 1 January		**2,072,138**	823,707
Cash and cash equivalents at 31 December	*26*	**2,857,567**	2,072,138

The notes on pages 8 to 48 form an integral part of these financial statements.
The independent auditors' report is set out on pages 1 to 3.

1 Legal status and principal activities

Emirates Development Bank ("EDB" or "the Bank"), was incorporated as a shareholding company fully owned by the Federal Government of United Arab Emirates as per the Federal Decree Law No. 7 ("the Law") issued on 18 September 2011, by merging the operations and assets and liabilities of Emirates Industrial Bank ("EIB") and Real Estate Bank ("REB"), both existing Federal banks that were established under separate laws ("the merged banks"). The Federal Decree Law No. 7 was signed by the President of the United Arab Emirates and became effective from 30 September 2011.

The registered address of the Bank is P.O. Box 51515, Abu Dhabi, United Arab Emirates.

The main objectives of the Bank are to promote economic development growth in the United Arab Emirates and diversify its sources of income through establishing new industries and strengthening existing ones.

The principal activities of the Bank consist of providing industrial and real estate loans, supporting financial holdings, financing other professional and agriculture and other infrastructure projects in UAE, in addition to providing revolving credit facilities and equity financing and the preparation of feasibility and market studies.

These financial statements were approved and authorised for issue by the Board of Directors on 24 MAY 2017.

2 Basis of preparation

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), applicable requirements of UAE Federal Law No. 2 of 2015 (Issued on 1 April 2015) and the requirements of the Central Bank of UAE.

UAE Federal Law No. 2 of 2015 being the Commercial Companies Law ("UAE Companies Law of 2016") was issued on 1 April 2015 and has come into force on 1 July 2015. Companies are allowed to ensure compliance with the new UAE Companies Law of 2015 by 30 June 2017 as per the transitional provisions contained therein.

The Bank is currently in the process of implementing all changes required by the UAE Companies Law of 2016.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and financial assets at fair value through profit or loss.

2.3 Functional and presentation currency

These financial statements are presented in United Arab Emirates Dirham ("AED"), which is the Bank's functional currency. Amounts have been rounded to nearest thousand except where otherwise indicated.

2 Basis of preparation

2.4 Use of estimates and judgments

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

3 Significant accounting policies

The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Financial assets

3.1.1 Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss; loans receivable; Murabaha; Ijarah and Estisnaa contracts; and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans, Murabaha, Ijarah and Estisnaa contracts

Loans are issued by the Bank by providing money directly to the borrowers and are carried at amortised cost. All loans are recognised when cash is advanced to the borrowers.

Murabaha contracts represent financing for the purchase of industrial goods by the borrowers on a deferred payment basis. A Murabaha contract is recognised when money is disbursed to the supplier for the supply of industrial goods to the borrower.

Estisnaa contracts represent financing for the construction of industrial civil works on a deferred payment basis. An Estisnaa contract is recognised when money is disbursed to the contractor for the construction of civil works for the borrower.

Other Estisnaa contracts are followed by Ijarah contract between the Bank and Emirates Real Estate Corporation, whereby Emirates Real Estate Corporation, based on an order from the Bank, undertakes to construct and subsequently lease the subject matter of the contract according to a specific price and method of payment.

Estisnaa contracts are recognized as receivables at an amount equal to the net investment in the Estisnaa when cash is advanced. The net investment in the lease is the gross investment in the lease less unearned finance income. Estisnaa are carried at amortised cost using the effective profit rate method.

3 Significant accounting policies *(continued)*

3.1 Financial assets *(continued)*

3.1.1 Classification *(continued)*

(a) Loans, Murabaha, Ijarah and Estisnaa contracts (continued)

Loans, Murabaha and Estisnaa are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans, Murabaha and Estisnaa are initially recognised at fair value, which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost. Loans, Murabaha and Estisnaa contracts are reported in the statement of financial position as Loans and advances and as Murabaha and Estisnaa contracts. Interest on loans is included in the statement of profit or loss and other comprehensive income. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the Loans, Murabaha and Estisnaa and are recognised in the statement of profit or loss and other comprehensive income as 'provision for impairment of loans and advances'.

Ijarah contracts are finance lease contracts. The Ijarah contract term constitutes the major part of the economic life of the asset, and the significant risks and rewards incidental to ownership, are substantially transferred to the lessee. Title may or may not eventually be transferred to the lessee.

Ijarah contracts are recognized as receivables at an amount equal to the net investment in the Ijarah when cash is advanced. The net investment in the lease is the gross investment in the lease less unearned finance income. Ijarah contracts are carried at amortised cost using the effective profit rate method.

Profit on Ijarah and Estisnaa contracts are recognised on accrual basis and time-apportioned using the effective profit rate method. Profit on Ijarah and Estisnaa contracts are not recognised when the recovery of the profit is in doubt.

(b) Available-for-sale financial assets

'Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in Other Comprehensive Income and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

(c) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

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3 Significant accounting policies *(continued)*

3.1 Financial assets *(continued)*

3.1.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Bank commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of profit or loss and other comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred where the Bank transfers substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans, Murabaha, Ijarah and Estisnaa contracts are carried at amortised cost.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of profit or loss and other comprehensive income, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is also recognised in the statement of profit or loss and other comprehensive income when the Bank's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for- sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of profit or loss and other comprehensive income.

Dividends on available-for-sale equity instruments are recognised in the statement of profit or loss and other comprehensive income when the Bank's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Offsetting

Financial assets and liabilities are set off and the net amount reported in the statement of financial position when the Bank has a legally enforceable right of set off and recognized amounts and intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

3 Significant accounting policies *(continued)*

3.1 Financial assets *(continued)*

3.1.2 Recognition and measurement *(continued)*

Impairment

The Bank assesses at each period-end whether there is objective evidence that a financial asset or a group of financial assets is impaired. Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In general, the Bank's considers a decline of 30% to be significant and a period of nine months to be prolonged. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

The Bank considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances (carried at amortised cost) with similar credit risk characteristics.

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against such financial assets. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Impairment losses on an unquoted equity instrument that is carried at cost because its fair value cannot be reliably measured, is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

Impairment of Ijarah and Estisnaa

Ijarah and Estisnaa are shown net of impairment provisions. The Ijarah and Estisnaa recoverable amounts are estimated based on the present value of future cash flows discounted using the original interest rate of the instrument. When a receivable is deemed uncollectible, it is written off against the related allowance for impairment. Such receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

3 Significant accounting policies *(continued)*

3.2 Financial liabilities

Financial liabilities including deposits from governments' institutions, call accounts for Sheikh Zayed Housing Program, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective profit method, with profit expense recognised on an effective yield basis.

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating profit expense over the relevant period. The effective profit rate is the rate that is exactly required to unwind estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

De-recognition of financial liabilities
The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or expired.

3.3 Provision for staff benefits

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No. 7, 1999 for Pension and Social Security. The provision for staff benefits calculated as per the approved bank staff regulations is usually higher than the estimated provision based on actuarial techniques in accordance with IAS 19.

A provision is made for the estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to the date of the statement of financial position. Provision is also made for the end of service benefits due to employees in accordance with the UAE Labour Law and the Bank's policy and internal regulations for their periods of service up to the date of the statement of financial position.

An actuarial valuation has not been performed on employees' end of service benefits as the net impact of the discount rate and future salary and benefit levels on the present value of the benefits obligation are not likely to be significant.

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

3.4 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances with the Central Bank of the UAE, money in call accounts, placements and due from banks with original maturities of less than three months.

3.5 Interest income and expense recognition

Interest income from loans, interest expense and profit on Murabaha, Ijarah and Estisnaa contracts are recognised in the statement of profit or loss and other comprehensive income using effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

3 Significant accounting policies *(continued)*

3.5 Interest income and expense recognition *(continued)*

The calculation of effective interest rate includes transaction costs and fees and points paid or received that are integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment and is not recognised as interest income (i.e. recorded as suspended interest).

3.6 Investment properties

Investment properties principally comprise of commercial lands and buildings held by the Bank for long term rental yields or for capital appreciation or both. Such properties are measured initially at cost including all transaction costs, and are subsequently carried at fair value, representing the open market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the statement of profit or loss and other comprehensive income. When the use of a property changes such that it is reclassified as a trading property, its fair value as at the date of reclassification becomes its cost for subsequent accounting.

Fair values are based on market values, being the estimated amount for which the property could be exchanged on the date of the valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgably, prudently and without compulsion.

Investment properties is derecognised upon disposal or when the investment properties is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gains or losses arising from the retirement or disposal of investment properties, calculated as the difference between the net disposal proceeds and the carrying amount are included in the statement of profit or loss and other comprehensive income.

3.6.1 Investment properties under development

Investment properties under development is carried at cost less impairment (if any).

3.6.2 Sale of investment properties

Revenue from sale of investment properties are measured at the fair value of the consideration received or receivable, and represents amounts receivable against the sale stated net of discounts, returns.

The Bank recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Bank's activities. The Bank bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Bank recognise its revenue from the sale of investment properties at the point of transfer of risks and rewards of ownership of the property in its entirety to the customer, revenue and the associated costs are recognised at that point of time.

3 Significant accounting policies *(continued)*

3.7 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Bank at the spot exchange rates at the date of the transactions

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of available-for-sale equity instruments items are recognised in Other Comprehensive Income.

3.8 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.9 Property, equipment and depreciation

Property and equipment is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed on straight line basis so as to write down the cost of property over 20 years and equipment over three years. Lands granted from the Government (shareholder) are not depreciated and are measured at nominal amount of AED 1.

Buildings	**20 years**
Furniture, fixtures and vehicles	**3 years**
Computers	**3 to 5 years**

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. If significant parts of an item of property or equipment have different useful lives then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is recognized within other income in profit or loss.

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

3 Significant accounting policies *(continued)*

3.9 Property and equipment and depreciation *(continued)*

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.10 Impairment of non-financial assets

At the end of each reporting date, the Bank reviews the carrying amounts of its assets in order to assess whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.11 Funds of Sheikh Zayed Housing Program

Funds of the Sheikh Zayed Housing Program vested with and managed by the Bank are accounted for within the assets and liabilities of the Bank *(note 16)*.

3.12 Proceeds from sale of investment properties

Proceeds from sale of apartment units of the investment properties are recognised as a liability until the delivery of the unit and transfer of risks and rewards to the customer.

3 Significant accounting policies *(continued)*

3.13 Dividend distribution

Dividend distribution to the Bank's shareholders is recognised as a liability in the Bank's financial statement in the period in which the dividends are approved by the shareholders.

3.14 Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

3.15 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations that are issued but not effective for the accounting period starting on or after 1 January 2017, and have not been early adopted in preparing these financial statements.

Effective date	New standards or amendments
1 January 2017	Disclosure Initiative (Amendments to IAS 7)
1 January 2017	Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
1 January 2018	IFRS 15 Revenue from Contracts with Customers
1 January 2018	IFRS 9 Financial Instruments
1 January 2018	Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
1 January 2019	IFRS 16 Leases
To be determined	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

3 Risk management

4.1 Introduction and overview

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. Below are the type of risks the Bank is exposed to:

- credit risk
- liquidity risk
- market risk
- operational risk

The Bank has management committees to oversee the risk management process. The Board Risk & Credit Committee, under delegation from the Board of Directors defines policies, processes, and systems to manage and monitor credit, market and operational risks. The Bank also has a Credit Risk function, which independently reviews adherence to all risk management policies and procedures. The Bank's internal audit function, which is part of risk framework, primarily evaluates the effectiveness of the controls addressing operational risk.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank's management regularly reviews the risk management policies and systems to reflect changes in markets, products and emerging best practice.

4.2 Credit risk

'Credit risk' is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment securities.

Credit risk also arises through the downgrading of counter parties, whose credit instruments are held by the Bank, thereby resulting in the value of the assets to fall. As credit risk is the Bank's most important risk, considerable resources, expertise and controls are devoted to managing this risk within the Bank.

Management is responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives.

The credit policy provides the development of a systematic and consistent approach to identifying and managing borrower and counter party risks.

The credit risk function in addition to the credit team are responsible for the recognition and management of credit risk both at transaction and portfolio levels and to ensure that risk procedures are adhered to in a manner consistent with the Bank's credit policy. The Bank manages limits and controls concentration of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries.

The Bank manages credit risk through diversification of investment activities to avoid undue concentrations of risks in specific locations or industry segments. The Bank also monitors credit exposures by limiting transactions with specific counterparties, and continually assesses the creditworthiness of counterparties.

4 Risk management

4.2 Credit risk

The carrying amount of financial assets represents the maximum credit exposure.

For risk management purposes, credit risk arising on financial assets at fair value through profit or loss is managed independently, and reported as a component of market risk exposure.

The Bank's credit risk management framework includes:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Credit Manager, the Head of Credit, Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing all credit exposures in excess of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for available-for- sale investments).
- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading system consists of seven grades reflecting various degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/ committee as appropriate. Risk grades are subject to regular reviews.and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

In addition, the Bank manages the credit exposure by obtaining collateral where appropriate and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk. Credit risk in respect of derivative financial instruments, if any, is limited to those with positive fair values.

4.2.1 Maximum exposure to credit risk before collateral held or other credit enhancements

Collateral risk

Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations. Credit policy and procedures set out the acceptable types of collateral, as well as a process by which additional instruments and/or asset types can be considered for approval.

As at 31 December 2016, the Bank held credit risk mitigants with an estimated value of AED 135,229 thousand *(2015: AED 172,857 thousand)* against receivables from Loans and advances, Murabaha, Ijarah and Estisnaa contracts and investments in the form of real estate collateral, other securities over assets, cash deposits and guarantees. The Bank accepts sovereign guarantees and guarantees from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals. Collateral generally is not held against Placements with banks and other financial institutions, and no such collateral was held at 31 December 2016 or 31 December 2015.

4 Risk management

4.2 Credit risk

4.2.1 Maximum exposure to credit risk before collateral held or other credit enhancements.

The table below stratifies credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio.

	2016 AED'000	2015 AED'000
LTV ratio		
Less than 50%	**6,809**	-
51 – 70%	**8,108**	350
71 – 90%	**7,548**	1,165
91 – 100%	**76,283**	18,608
	98,748	20,123

Credit risk exposures relating to the statement of financial position assets are as follows:

	2016 AED'000	2015 AED'000
Cash and balances with the UAE Central Bank	**160,412**	26
Due from banks	**4,337,154**	5,279,112
Loans and advances	**331,901**	258,114
Murabaha, Ijarah and Estisnaa contracts	**69,279**	89,756
Available-for-sale financial assets	**372,234**	410,165
Financial assets at fair value through profit or loss	**197,626**	170,843
Other assets	**33,251**	22,645
	5,501,857	6,241,765

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2016 and 31 December 2015, without taking into account any collateral held or other credit enhancements attached. For statement of financial position, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

Emirates Development Bank

Notes to the financial statements

4 Risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.1 Maximum exposure to credit risk before collateral held or other credit enhancements *(continued)*

Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentration of credit risk at the reporting date by sectors is shown below.

	Public sector AED'000	Financial sector AED'000	Private sector AED'000	Total AED'000
31 December 2016				
Cash and balances with the UAE Central Bank	**160,412**	**-**	**-**	**160,412**
Due from banks	**-**	**4,337,154**	**-**	**4,337,154**
Loans and advances	**114,901**	**74,857**	**142,143**	**331,901**
Murabaha, Ijarah and Estisnaa contracts	**63,267**	**-**	**6,012**	**69,279**
Available-for-sale financial assets	**-**	**359,923**	**12,311**	**372,234**
Financial assets at fair value through profit or loss	**-**	**15,194**	**182,432**	**197,626**
Other assets	**-**	**-**	**33,251**	**33,251**
	338,580	**4,787,128**	**376,149**	**5,501,857**

	Public sector AED'000	Financial sector AED'000	Private sector AED'000	Total AED'000
31 December 2015				
Cash and balances with the UAE Central Bank	26	-	-	26
Due from banks	-	5,279,112	-	5,279,112
Loans and advances	94,700	68,829	94,585	258,114
Murabaha, Ijarah and Estisnaa contracts	77,599	-	12,157	89,756
Available-for-sale financial assets	-	367,180	42,985	410,165
Financial assets at fair value through profit or loss	-	16,294	154,549	170,843
Other assets	-	-	33,749	33,749
	172,325	5,731,415	326,921	6,230,661

4 Risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.1 Maximum exposure to credit risk before collateral held or other credit enhancements *(continued)*

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentration of credit risk at the reporting date by geographical location is shown below.

	UAE AED'000	**GCC AED'000**	**North America AED'000**	**Others AED'000**	**Total AED'000**
31 December 2016					
Cash and Balances with the UAE Central bank	**160,412**	**-**	**-**	**-**	**160,412**
Due from banks	**4,337,154**	**-**	**-**	**-**	**4,337,154**
Loans and advances	**297,951**	**33,950**	**-**	**-**	**331,901**
Murabaha,Ijarah and Estisnaa Contracts	**30,047**	**-**	**2,506**	**36,726**	**69,279**
Available-for-sale investments	**352,084**	**20,150**	**-**	**-**	**372,234**
Financial assets at fair value through profit or loss	**188,544**	**-**	**-**	**9,082**	**197,626**
Other assets	**33,251**	**-**	**-**	**-**	**33,251**
	5,580,177	**54,100**	**2,506**	**45,808**	**5,501,857**

	UAE AED'000	GCC AED'000	North America AED'000	Others AED'000	Total AED'000
31 December 2015					
Cash and Balances with the UAE Central bank	26	-	-	-	26
Due from banks	5,279,112	-	-	-	5,279,112
Loans and advances	229,590	28,524	-	-	258,114
Murabaha,Ijarah and Estisnaa Contracts	45,210	-	2,864	41,682	89,756
Available-for-sale investments	374,346	28,450	-	7,369	410,165
Financial assets at fair value through profit or loss	158,734	-	-	12,109	170,843
Other assets	22,645	-	-	-	22,645
	6,109,663	56,974	2,864	61,160	6,230,661

4 Risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.2 Loans and advances to customers and amounts due from banks

Loans and advances to customers and amounts due from banks are summarised as follows:

	31 December 2016		31 December 2015	
	Loans, Murabaha Ijara and Estisnaa contracts AED'000	**Amounts due from banks AED'000**	**Loans, Murabaha Ijara and Estisnaa contracts AED'000**	**Amounts due from banks AED'000**
Neither past due nor impaired	270,116	4,337,154	210,482	5,279,112
Past due but not impaired	6,126	-	3,304	-
Individually impaired	281,425	-	280,113	-
Gross	**557,667**	**4,337,154**	**493,899**	**5,279,112**
Less: allowance for impairment	(154,616)	-	(144,812)	-
Interest in suspense	(1,871)	-	(1,217)	-
Net	**401,180**	**4,337,154**	**347,870**	**5,279,112**
Neither past due nor impaired				
Loans and advances	200,837	-	129,274	-
Murabaha and Estisnaa contracts	69,279	-	-	-
Due from other banks	-	4,337,154	89,756	5,279,112
Gross	**270,116**	4,337,154	**219,030**	**5,279,112**
Less: collective allowance	(17,999)	-	(8,548)	-
Net	**252,117**	**4,337,154**	**210,482**	**5,279,112**

The credit quality of the portfolio of loans and advances, and Murabaha, Ijarah and Estisnaa contracts that were neither past due nor impaired are assessed individually by the Bank.

Neither past due nor impaired
Credit risk, both on and off statement of financial position, is actively managed and monitored in accordance with defined credit policies and procedures. The creditworthiness of each counter party is evaluated and appropriate credit limits are established. To reduce individual counterparty credit risk, the Bank ensures, whenever necessary, that all loans are secured by acceptable forms of collateral. Established limits and actual levels of exposure are regularly reviewed and updated by management. Credit review procedures are designed to identify at an early stage exposures which require more detailed monitoring and review.

4 Risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.2 Loans and advances to customers and amounts due from banks *(continued)*

Past due but not impaired

Loans and advances more than 360 days past due are not considered impaired, unless other information is available to indicate the contrary.

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	31 December 2016			31 December 2015		
	Loans and advances AED'000	Murabaha and Estisnaa contracts AED'000	Total AED'000	Loans and advances AED'000	Murabaha and Estisnaa contracts AED'000	Total AED'000
Past due up to 30 days	431	-	**431**	1,628	-	**1,628**
Past due 30 - 90 days	100	-	**100**	271	-	**271**
Past due 90 - 360 days	37,655	-	**37,655**	2,124	-	**2,124**
Past due over 360 days	19,480	6,021	**25,501**	16,056	6,021	**22,077**
Total	**57,666**	**6,021**	**63,687**	**20,079**	**6,021**	**26,100**
Fair value of collateral	-	-	-	-	-	-

The valuations of the fair value of the collaterals are not up to date in certain cases and may not reflect the true value that could be realised if this is requested. However, management of the Bank believes that the fair value of the collaterals exceeds the carrying amount of the past due loans.

Individually impaired

The breakdown of the gross amount of individually impaired loans and advances, loans to financial institutions and Islamic contracts, along with the fair value of related collateral held by the Bank as security, are as follows:

	31 December 2016			31 December 2015		
	Loans and advances AED'000	Murabaha and Estisnaa contracts AED'000	Total AED'000	Loans and advances AED'000	Murabaha and Estisnaa contracts AED'000	Total AED'000
Individually impaired loans / Islamic finance contracts	275,404	6,021	**281,425**	275,840	4,273	**280,113**
Fair value of collateral	(61,260)	-	**(61,260)**	(172,857)	-	**(172,857)**
	214,144	**6,021**	**220,165**	**102,983**	**4,273**	**107,256**

Impaired Murabaha and Estisnaa are fully provided for *(Note 8)*.

4 Risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.3 Concentration of risks of financial assets with credit risk

Concentration Risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentration of credit risk is controlled and managed accordingly.

4.3 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. Management of the Bank meet on a regular basis to monitor and manage market risks.

Price risk

The Bank is exposed to equity securities price risk because of investments held by the Bank and classified on the statement of financial position either as available-for-sale or at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Bank diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the management.

The table below summarizes the impact of a 10% increase / decrease of the prices of this portfolio, on the Bank's results and equity for the year ended 31 December 2016. The analysis is based on the assumptions that all other variables will remain constant and where applicable, the Bank's investments moved according to the historical correlation of the relevant index.

	Impact on results and equity of the Bank	
	2016	2015
	AED'000	AED'000
± 10 % change in equity prices:		
Other comprehensive income	**16,004**	17,232

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4 Risk management *(continued)*

4.3 Market risk *(continued)*

Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank's management monitors interest rates on a regular basis.

Interest sensitivity of assets and liabilities

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is assessed by measuring the impact of reasonable possible change in interest rate movements.

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Bank manages this risk principally thorough monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

The substantial portion of the Bank's assets and liabilities are re-priced within three months. Accordingly, there is a limited exposure to interest rate risk.

The effective interest rate of a monetary financial instrument is the rate that, when applied in a present value calculation of future contractual cash flows, results in the carrying amount of the instrument. The rate is an original effective interest rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating instrument or an instrument carried at fair value.

The following table sets out the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates. Off statement of financial position items are not exposed to risks associated with fluctuation in the prevailing levels of market interest rates.

4 Risk management *(continued)*

4.3 Market risk *(continued)*

At 31 December 2016	Up to 3 months AED'000	3 - 12 months AED'000	Non-interest sensitive AED'000	Total AED'000
Assets				
Cash and balances with the UAE Central Bank	-	-	160,412	**160,412**
Due from other banks	2,600,000	1,640,000	97,154	**4,337,154**
Loans and advances	-	33,950	297,951	**331,901**
Murabaha, Ijarah and Estisnaa contracts	-	69,279	-	**69,279**
Available-for-sale financial assets	-	-	372,234	**372,234**
Financial assets at fair value through profit or loss	-	-	197,626	**197,626**
Total	**2,600,000**	**1,743,229**	**1,125,377**	**5,468,606**
Liabilities				
Deposits from Governmental institutions	2,200,000	-	-	**2,200,000**
Other liabilities	-	-	63,951	**63,951**
Funds of Sheikh Zayed Housing Program	607,563	-	-	**607,563**
Total	**2,807,563**	-	**63,951**	**2,871,514**
Net gap	**(207,563)**	**1,743,229**	**1,061,426**	**2,597,091**

At 31 December 2015	Up to 3 months AED'000	3 - 12 months AED'000	Non-interest sensitive AED'000	Total AED'000
Assets				
Cash and balances with the UAE Central Bank	-	-	26	26
Due from other banks	4,634,000	455,000	190,112	5,279,112
Loans and advances	-	28,524	229,590	258,114
Murabaha, Ijarah and Estisnaa contracts	-	89,756	-	89,756
Available-for-sale financial assets	-	-	410,165	410,165
Financial assets at fair value through profit or loss	-	-	170,843	170,843
Total	**4,634,000**	**573,280**	**1,000,736**	**6,208,016**
Liabilities				
Deposits from Governmental institutions	2,300,000	1,000,000	-	3,300,000
Other liabilities	-	-	54,896	54,896
Funds of Sheikh Zayed Housing Program	326,897	-	-	326,897
Total	**2,626,897**	**1,000,000**	**54,896**	**3,681,793**
Net gap	**2,007,103**	**(426,720)**	**945,840**	**2,526,223**

4 Risk management *(continued)*

4.3 Market risk *(continued)*

Interest rate risk is assessed by measuring the impact of reasonable possible change in interest rate movements. The Bank assumes a fluctuation in EIBOR rates of 25 basis points (bps) and estimates the following impact on the net profit for the year and net assets at that date, with all other variables held constant:

	2016	2015
	AED'000	AED'000
Effect of a +/- 25 bps change in EIBOR		
Gain or loss	**3,839**	3,990
Other items of comprehensive income	**3,646**	918

The interest rate sensitivities set out above employ simplified scenarios. They are based on AED 4,343 million *(2015: AED 5,207 million)* interest bearing assets and AED 2,808 million *(2015: AED 3,627 million)* interest bearing liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Bank's functional currency is the UAE Dirham. Positions are closely monitored and strategies are used to ensure positions are maintained within established limits.

The Bank's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure.

At 31 December 2016, the Bank had net exposures denominated in foreign currencies amounting to AED 221,948 thousand *(2015: AED 249,304 thousand).*

Management of market risks
Overall authority for market risk is vested in ALCO which sets up limits for each type of risk in aggregate and for portfolios. Management responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

4.4 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to fulfil commitments to lend. The Bank's liquidity risk monitoring process is performed by Bank's management.

The following table analyses the under establishment banks' assets and liabilities into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contracted maturity date:

4 Risk management *(continued)*

4.4 Liquidity risk *(continued)*

At 31 December 2016	Up to 3 months AED'000	3-12 months AED'000	Over 12 months AED'000	Unspecified maturity AED'000	Total AED'000
Assets					
Cash and balances with the UAE Central Bank	160,412	-	-	-	160,412
Due from other banks	2,697,154	1,640,000	-	-	4,337,154
Loans and advances	9,739	15,309	231,996	74,857	331,901
Murabaha, Ijarah and Estisnaa contracts	2,803	11,529	48,935	6,012	69,279
Available-for-sale financial assets	372,234	-	-	-	372,234
Financial assets at fair value through profit or loss	-	197,626	-	-	197,626
Total	**3,242,342**	**1,864,464**	**280,931**	**80,869**	**5,468,606**
Liabilities					
Deposits from Governmental institutions	2,200,000	-	-	-	2,200,000
Other liabilities	-	-	-	63,773	63,773
Funds of Sheikh Zayed Housing Program	607,563	-	-	-	607,563
Total	**2,807,563**	-	-	**63,773**	**2,871,336**
Net liquidity gap	**434,779**	**1,864,464**	**280,931**	**17,096**	**2,597,091**

At 31 December 2015	Up to 3 months AED'000	3-12 months AED'000	Over 12 months AED'000	Unspecified maturity AED'000	Total AED'000
Assets					
Cash and balances with the UAE Central Bank	26	-	-	-	26
Due from other banks	4,824,112	455,000	-	-	5,279,112
Loans and advances	16,298	18,926	222,890	-	258,114
Murabaha, Ijarah and Estisnaa contracts	6,812	19,677	63,267	-	89,756
Available-for-sale financial assets	172,316	237,849	-	-	410,165
Financial assets at fair value through profit or loss	-	-	-	170,843	170,843
Total	**5,019,564**	**731,452**	**286,157**	**170,843**	**6,208,016**
Liabilities					
Deposits from Governmental institutions	2,300,000	1,000,000	-	-	3,300,000
Other liabilities	-	-	-	54,896	54,896
Funds of Sheikh Zayed Housing Program	326,897	-	-	-	326,897
Total	**2,626,897**	**1,000,000**	-	**54,896**	**3,681,793**
Net liquidity gap	**2,392,667**	**(268,548)**	**286,157**	**115,947**	**2,526,223**

4 Financial risk management *(continued)*

4.4 Liquidity risk *(continued)*

Maturity of assets and liabilities is determined on the basis of the remaining period from the date of the statement of financial position to the contractual maturity date.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

4.5 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Management is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall standards for the management of operational risk.

4.6 Capital risk management

The Bank's objectives when managing capital is to safeguard the Bank's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Bank is not exposed to capital risk due to the availability of surplus funds.

4.7 Fair value hierarchy

All financial assets and liabilities are measured at amortised cost except for available-for-sale investments and financial assets at fair value through profit or loss which are measured at fair value by reference to published price quotations in an active market.

4 Financial risk management *(continued)*

4.7 Fair value hierarchy *(continued)*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Bank is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

The carrying values of financial assets and financial liabilities of the Bank approximate their fair values. The nominal values less impairment provision of loans, Murabaha and Estisnaa contracts approximate their fair values.

The Bank has adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - Inputs other than quoted prices included within level 1 that are observable for asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Bank measures the fair values of its quoted available-for-sale investments and financial assets at fair value through profit or loss using the quoted market price (unadjusted) in active market for an identical instrument (level 1). For the unquoted and managed funds, the Bank measures its fair value based on level 3. No movements or reclassification between levels of fair values took place during the year.

The fair values of balance with the Central Bank of the UAE, due from banks, loans to and deposits from governmental authorities and funds of Sheikh Zayed Housing Program, which are predominantly short term in tenure and issued at market rates, are considered to reasonably approximate their book value. The Bank estimates that the fair value of its Ijarah and Estisna portfolios not to be materially different from its book value since all of these balances carry floating market rates of interest and are re-priced on semiannual basis.

The following table presents the Bank's accounts that are measured at fair value hierarchy:

	AED'000			
	Level 1	**Level 2**	**Level 3**	**Total**
At 31 December 2016				
Available-for-sale financial assets	342,059	-	30,175	**372,234**
Financial assets at fair value through profit or loss	-	-	197,626	**197,626**
Investment properties	-	-	591,040	**591,040**
At 31 December 2015				
Available-for-sale financial assets	371,288	-	38,877	**410,165**
Financial assets at fair value through profit or loss	-	-	170,843	**170,843**
Investment properties	-	-	584,280	**584,280**

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4 Financial risk management *(continued)*

4.7 Fair value hierarchy *(continued)*

Measurement of fair values *(continued)*

(i) ***Valuation techniques and significant unobservable inputs***

The following table shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Unquoted Equities	*Market comparison technique:* The valuation model is based on market multiples derived fron quoted prices of companies comparable to the investee and the expected EBITDA of the investee. The estimate is adjusted for the effect of non-marketability of the equity securities.	EBITDA / Forecasted EBITDA	The estimated fair value would increase (decrease) if: • the annual revenue growth rate were higher (lower); • the EBITDA margin were higher (lower); or • the adjusted market multiple were higher (lower). Generally, a change in the annual revenue growth rate is accompanied by directionally similar change in EBITDA margin.

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Investment properties	Discounted cash flows	• Site affection plans. • Floor plans.

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4 Financial risk management *(continued)*

4.7 Fair value hierarchy *(continued)*

(ii) Level 3 fair values

Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

	2016 AED'000	2015 AED'000
Investment properties		
Balance as at 1 January	**584,280**	595,055
Disposal during the year	**13,152**	-
Loss from change in fair value of investment properties	**(6,392)**	(10,775)
Balance as at 31 December	**591,040**	584,280

	2016 AED'000	2015 AED'000
Unquoted equities		
Available-for-sale financial assets		
Balance as at 1 January	**31,508**	31,071
(Loss) / Gain from change in fair value of available-for-sale of financial assets	**(1,333)**	437
Balance as at 31 December	**30,175**	31,508
Financial assets at fair value through profit or loss		
Balance as at 1 January	**170,843**	159,348
Investment capital redeemed	-	(505)
Gain from change in fair value of financial assets at fair value through profit or loss	**18,973**	12,000
Balance as at 31 December	**189,816**	170,843

5 Critical accounting estimates and judgments

The Bank makes estimates and assumptions primarily relating to impairment losses on loans and advances as well as impairment losses on Murabaha, Ijarah, and Estisnaa contracts which affect reported amounts of assets and results of operations. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events, which although are believed to be reasonable under the circumstances, could result in a material adjustment to the carrying amounts of assets in the next financial period.

(a) Impairment losses on loans, Murabaha, Ijarah and Estisnaa

The Bank reviews its loan portfolios as well as Murabaha, Ijarah and Estisnaa contracts to assess impairment at least on a yearly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be attributed to an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience and objective evidence of impairment when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the provision estimates differ by +/- 5%, profit for the year would decrease or increase by AED 3.2 million *(2015: AED 3.2 million)*.

(b) Impairment of available-for-sale financial assets

The Bank follows the guidance of International Accounting Standard "Financial Instruments: Recognition and Measurement" IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(c) Impairment of placements with investment companies

An estimate of the collectible amount and present value of placements is made when collection of the full amount is extended, negotiated, or no longer probable due to the credit deterioration of the investment company. For individually significant amounts, this estimation is performed on an individual basis by discounting estimated cash flows to its present value and taking into consideration a reasonable risk factor on the default of the counterparty.

(d) Impairment of property and equipment

The Bank assesses impairment of its property and equipment on a continuous basis by comparing its fair value based on the latest valuation performed by external valuer. This value will be compared to the carrying amount of property and equipment to ascertain any probable impairment. Where property and equipment is determined to have a significant decline in fair value that could indicate impairment, the Bank adjusts the carrying amount of its properties and equipment to its recoverable amount / fair value.

6 Due from other banks

	2016 AED'000	2015 AED'000
Placements	**4,240,000**	5,089,000
Current and call accounts	**97,154**	190,112
	4,337,154	5,279,112

Placements include funds received by the Bank from Sheikh Zayed Housing program amounting to AED 2.2 billion *(Notes 9 and 10)*.

7 Loans and advances

	2016 AED'000	2015 AED'000
Loans and advances*	**244,198**	234,402
Loans to financial institutions**	**149,716**	153,893
Housing Loans	**98,748**	20,123
Total loans and advances	**492,662**	408,418
Less: allowance for impairment	**(158,889)**	(149,087)
Less: interest in suspense	**(1,872)**	(1,217)
Balance at 31 December	**331,901**	258,114

* The balance of loans and advances includes loans which are granted for industrial projects and related services at a value of AED 58,970 thousand *(31 December 2015: AED 75,678 thousand)* in the United Arab Emirates. Loans are generally granted at a fixed interest rate of 2% to 6% *(2015: 4.5% to 6%)* per annum.

Loans and advances balance also includes real estate loans worth of AED 114.9 million which had been granted by Real Estate Bank in 2010 (now part of the Emirates Development Bank) over three loans amounting to AED 170 million to a government entity to acquire properties in the United Arab Emirates. These loans are subject to interest rate of 3 months EIBOR plus a fixed rate up to 3.25% rate. These loans were granted a grace period of two years from the date of the withdrawal. The grace period began from the date of first withdrawal in 2010.

During 2016, the bank consolidated these three loans within new structure carrying an interest rate of three months EIBOR plus a fixed premium of 1.5%

7 Loans and advances *(continued)*

The maturities of these loans are as follows:

	2016 AED'000	2015 AED'000
One year	**12,095**	20,200
Between 2 and 5 years	**48,379**	74,500
More than 5 years	**54,427**	-
	114,901	94,700

The total non-performing loans amounted to AED 118 million *(31 December 2015: AED 121 million)*. The provisions balance held against those loans amounted to AED 66 million *(31 December 2015: AED 64 million)* and the suspended interest amounted to AED 1.09 million as at 31 December 2016 *(31 December 2015: AED 1.2 million)*. Interests are suspended on loans that become past due over 90 days unless management's assessment indicates otherwise.

Movement in provision for impairment:

	2016 AED'000	2015 AED'000
Balance at 1 January	**64,024**	64,024
Excess specific provisions	**(1,802)**	(8,548)
Collective provision	**8,000**	8,548
	70,222	64,024

**Loans to financial institutions originally represented placements, that had no related collaterals and were individually impaired, with Amlak Finance and Global Investment House amounting to AED 149,716 thousand *(31 December 2015: AED 153,893 thousand)* that have been renegotiated during 2014 and transferred to loans to financial institutions. The provision provided on these loans amounted to AED 74,859 thousand *(31 December 2015: AED 85,064 thousand)*. During the year 2015 the Bank reclassified the element related to Amlak contingent convertible instrument into available-for-sale portfolio which amounted to AED 19 million and was fully provided for.

Emirates Development Bank

Notes to the financial statements

7 Loans and advances *(continued)*

By industrial economic sector:

	2016 **AED'000**	2015 AED'000
Financial services	**149,717**	153,893
Food and beverages	**6,907**	1,000
Nonmetallic mineral products	**111,651**	105,161
Basic metals	**2,038**	10,799
Chemical products	**4,218**	-
Real estate	**178,168**	114,825
Other	**39,962**	22,740
	492,661	408,418
Less: provisions and interest in suspense	**(160,760)**	(150,304)
	331,901	258,114

	2016 **AED'000**	2015 AED'000
Substandard	**149,717**	153,893
Doubtful	**8,098**	6,905
Loss	**125,891**	115,042
Outstanding	**283,706**	275,840
Less: specific allowance for impairment	**(158,889)**	(141,756)
Carrying amount	**124,817**	134,084

8 Murabaha, Ijarah and Estisnaa contracts

	2016 **AED'000**	2015 AED'000
Murabaha and Estisnaa contracts	**24,720**	36,683
Ijarah contracts (a)	**48,832**	57,346
Total Murabaha	**73,552**	94,029
Less: provision for impairment	**(4,273)**	(4,273)
Net Murabaha, Ijarah and Estisnaa contracts	**69,279**	89,756

8 Murabaha, Ijarah and Estisnaa contracts *(continued)*

By economic sector:

	2016 AED'000	2015 AED'000
Real estate	**63,267**	77,599
Plastic products	**-**	3,707
Others	**10,285**	12,723
	73,552	94,029

Movement in provision for impairment:

	2016 AED'000	2015 AED'000
Balance at 1 January	**4,273**	4,273
Charge for the period	**-**	-
Excess specific provision	**-**	-
Collective provision	**-**	-
	4,273	4,273

	2016 AED'000	2015 AED'000
Substandard	**-**	-
Doubtful	**-**	-
Loss	**4,273**	4,273
Outstanding		
Less: specific allowance for impairment	**(4,273)**	(4,273)
Carrying amount	**-**	-

a) Ijarah contracts

	2016 AED'000	2015 AED'000
Gross investment in Ijarah	**53,166**	62,101
Less: deferred Ijarah profits	**(4,334)**	(4,755)
	48,832	57,346

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8 Murabaha, Ijarah and Estisnaa contracts *(continued)*

Emirates Development Bank (through previously separate Real Estate Bank and Emirates Industrial Bank) has entered into several Ijarah contracts with Emirates Real Estate Corporation through which the Bank financed the acquisition of properties in various countries. These properties were registered in the name of the UAE Ministry of Foreign Affairs in accordance with the existing requirements of their respective countries. Lease rentals bear floating six-month Emirates Inter Bank Offered Rates ("EIBOR") in addition to a fixed premium. Net present value of minimum Ijarah payments is calculated assuming that prevailing interest rates of 1% plus EIBOR as at the Ijarah agreements date will persist.

	31 December 2016	
	Minimum Ijarah payments AED'000	Present value of minimum Ijarah payments AED'000
Within one year	9,451	8,514
2 years to 5 years	36,172	32,968
More than five years	7,542	7,350
	53,165	48,832

	31 December 2015	
	Minimum Ijarah payments AED'000	Present value of minimum Ijarah payments AED'000
Within one year	9,431	8,514
2 years to 5 years	39,595	36,168
More than five years	13,075	12,664
	62,101	57,346

Annual fixed installment due from Ijarah contracts is AED 9,451 thousand *(2015: AED 9,431 thousand)*.

An interest rate of 1% + EIBOR has been taken as the interest rate implicit in the Ijarah being the Internal Rate of Return based on the management's estimation. Income from Ijarah contracts is recognised based on a pattern reflecting a variable periodic rate of return on the Bank's net investment in the Ijarah.

The Bank is permitted to sell or re-pledge the collateral in the case of default by the lessee. All Ijarah contracts are with governmental agencies.

Ijarah contracts receivable balances are secured by the mortgage over the Ijarah properties and the Government implicit guarantee.

Emirates Development Bank

Notes to the financial statements

9 Available-for-sale financial assets

	2016 AED'000	2015 AED'000
Balance at 1 January	**410,165**	249,878
Fair value movement		
Revaluation reserve	**(14,584)**	(44,240)
Acquisition of new investments	**-**	204,527
Capital redemption of available-for-sale financial assets	**(23,347)**	-
Balance as at 31 December	**372,234**	410,165

The available-for-sale financial assets are denominated in UAE Dirham and comprises of the following:

	2016 AED'000	2015 AED'000
Bonds	**182,019**	198,972
Quoted shares	**160,040**	172,316
Un-quoted shares	**30,175**	31,508
Managed funds	**-**	7,369
	372,234	410,165

Quoted shares

Quoted shares include bonus shares received by the Bank with fair value of AED 0.12 million as of 31 December 2016 *(2015: AED 31 million).*

Un-quoted shares

Un-quoted shares are carried at fair value.

Managed funds

Managed funds are carried at fair value.

10 Financial assets at fair value through profit or loss

	2016 AED'000	2015 AED'000
Balance at 1 January	**170,843**	159,348
Change in fair value	**26,783**	12,000
Capital redemption	**-**	(505)
	197,626	170,843

Financial assets at fair value through profit or loss are all investments in unquoted companies. Changes in fair value of financial assets at fair value through profit or loss are recognised in other operating income in the statement of profit or loss and other comprehensive income.

11 Investment properties

Investment properties comprise of the following:

	Land AED'000	Buildings AED'000	Properties under development AED'000	Total AED'000
At December 2014	124,960	374,275	95,820	**595,055**
Revaluation loss	(6,460)	(7,145)	2,830	**(10,775)**
At December 2015	**118,500**	**367,130**	**98,650**	**584,280**
Revaluation loss	716	(10,328)	3,220	**(6,392)**
Title deed	1,604	11,548	--	**13,152**
At December 2016	**120,820**	**368,350**	**101,870**	**591,040**

The above investment properties are located in various Emirates within the UAE as follows:

	Abu Dhabi AED'000	Dubai AED'000	Ajman AED'000	Total AED'000
Land & properties under development	40,600	179,460	2,630	222,690
Buildings	270,000	98,350	-	368,350
At December 2016	**310,600**	**277,810**	**2,630**	**591,040**

	Abu Dhabi AED'000	Dubai AED'000	Ajman AED'000	Total AED'000
Land & properties under development	43,000	171,610	2,540	217,150
Buildings	270,000	97,130	-	367,130
At December 2015	**313,000**	**268,740**	**2,540**	**584,280**

Investment properties are stated at fair value, which have been determined based on valuations performed by an industry specialist as at 31 December 2016. The fair values have been computed based on discounted cash flows method, prepared by considering the estimated rents for the property. When actual rents differ materially from the estimated rental value, adjustments are made to reflect actual rents.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Company and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

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11 Investment properties *(continued)*

The fair values have not been determined based on transactions observable in the market except valuation of land because of the lack of comparable data given current economic conditions but instead have been based on a valuation model in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards. The valuation, which conforms to the Royal Institution of Chartered Surveyors Valuation Standards and the relevant statements of the International Valuations Standards, was arrived at by using recognised valuation methods comprising the comparable method of valuation, the investment valuation method and the residual valuation method.

During 2016, the Bank obtained title deed on a plot of land amounted AED 11.5 million.

Investment properties under development value includes, an amount of AED 43.8 million *(2015: AED 43.8 million)* being costs incurred to date on foundation and earthworks and are expected to be utilized in the future.

Income from investment properties – Net:

	2016 AED'000	2015 AED'000
Rental income	**31,187**	29,809
Provision on rental income payable to Dubai Municipality	**(7,243)**	-
Service charges	**(6,004)**	(5,631)
	17,940	24,179

Rental income from investment properties are disclosed as other operating income *(Note 23)*.

12 Other assets

	2016 AED'000	2015 AED'000
Prepayments and other assets	**9,455**	11,104
Interest receivable	**23,796**	22,645
	33,251	33,749

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13 Property and equipment

	Buildings AED'000	Furniture and fixtures AED'000	Computers AED'000	Motor vehicles AED'000	Work-in-progress AED'000	Total AED'000
Cost						
At 1 January 2015	62,198	8,904	13,745	722	2,718	88,287
Additions	6,318	260	7,340	-	18,422	32,340
Disposal	-	-	-	(262)	-	(262)
Adjustments	7,220	2,268	9,624	-	(19,112)	-
At 31 December 2015	**75,736**	**11,432**	**30,709**	**460**	**2,028**	**120,365**
Additions	9,222	3	165	-	1,074	10,464
Adjustments	-	-	737	-	(737)	-
At 31 December 2016	**84,958**	**11,435**	**31,611**	**460**	**2,365**	**130,829**
Accumulated depreciation						
At 1 January 2015	22,478	8,112	12,648	722	-	43,960
Charge for the year	4,044	799	1,426	-	-	6.269
Disposal	-	-	-	(262)	-	(262)
At 31 December 2015	**26,522**	**8,911**	**14,074**	**460**	-	**49,967**
Charge for the year	6,036	1,062	4,267	-	-	11,365
At 31 December 2016	**32,558**	**9,973**	**18,341**	**460**	-	**61,332**
Net book value						
At 31 December 2016	**52,400**	**1,462**	**13,270**	-	**2,365**	**69,497**
At 31 December 2015	49,214	2,521	16,635	-	2,028	70,398

The buildings above include plots of lands at a nominal amount of AED 1 as follows:

The Bank's building in Abu Dhabi is constructed on land granted by the government of Abu Dhabi in the year 2000 for no consideration. This land is booked at nominal amount of AED 1. The Bank carried a valuation by an external valuer on its Abu Dhabi building including the land as of 31 December 2015. The fair value at that date amounted to AED 52 million *(2015: AED 52 million)*.

The Bank's building in Dubai is constructed on a land granted by the government of Dubai in the year 2000 for no consideration. The book value of this land is booked at nominal amount of AED 1. The Bank carried a valuation by an external valuer on its Dubai building including the land as of 31 December 2015. The fair value as of that date amounted to AED 53.5 million *(2015: AED 54.7 million)*.

In 2001, the government of Ras Al Khaimah granted the Bank a plot of land in Ras Al Khaimah for no consideration, subject to constructing a Branch. The book value of this land is booked at nominal amount of AED 1.

Property and equipment included fully depreciated items with cost amounting to AED 21.9 million as of 31 December 2016 *(2015: AED 21.2 million)*.

14 Deposits from governmental institutions

	2016 AED'000	2015 AED'000
Sheikh Zayed Housing Program	**2,200,000**	2,600,000
General Pension and Social Security Authority	**-**	700,000
	2,200,000	3,300,000

15 Other liabilities

	2016 AED'000	2015 AED'000
Accrual for Directors' remuneration	**1,670**	1,700
Accrued interest payable	**-**	3,250
Accrued liability towards Al Maha Tower	**-**	7,554
Accrual for staff costs and others	**1,718**	3,038
Amounts collected towards re-financed	**10,689**	-
loans of Settlement Committee	**-**	10,689
Deferred income from rents	**10,957**	8,698
Advance payment toward loans installments	**-**	3,526
Others	**38,917**	16,441
	63,951	54,896

The total amount recovered from loans re-financed by the Settlement Committee amounted to AED Nil *(2015: AED Nil)*. These amounts are recognised as a liability until a resolution from shareholders on the future treatment and recognition.

Accrued liability towards Al Maha Tower pertains to registration fees amounting to Nil *(2015: AED 6,537 thousand)* for Al Maha Tower units purchased, legal and professional fees amounting to AED Nil *(2015: AED 1,039 thousand)*.

Accrual for staff costs includes a provision for staff bonus for 2016 amounting to AED Nil *(2015: AED 1.2 million)*.

16 Funds of Sheikh Zayed Housing Program

Pursuant to the Federal Law No. (10) of 2009 relating to the Sheikh Zayed Housing Program ("the Program") and with its regulations issued by UAE Cabinet Resolution No. (9) of 2011, the Bank and the Program signed an agreement for the provision of banking, financial and investment management services on 8 March 2015.

This agreement lays out specific services that are to be provided by the Bank to the program, the terms and conditions the services are to be provided under, key performance indicators that will be used to assess the Bank's performance, the Bank's and Program's rights and responsibilities and details the fees that are to be charged by the Bank to the Program in exchange.

The services to be provided include receiving funds pertaining to the Program and providing these

16 Funds of Sheikh Zayed Housing Program *(continued)*

funds to beneficiaries in the form of housing loans, as per the terms agreed by the Program and beneficiary, then administering the loans as per agreement. Additionally the Bank is to make progress disbursements for housing projects and other financial aid to UAE nationals as well as manage the recovery services of the loans.

The Ministry of Finance transfers the funds allocated to the Program to the current account of the Bank. The Program earns interest on the funds invested with the Bank at prevailing market rates. The effective average interest rate earned on the funds during the period was 0.47% *(2015: 0.47%)*.

The substantial risk and rewards associated with the Program's funds rest with the Bank. Therefore, the funds of the Program under the management of the Bank are disclosed as part of the assets (call account and placements) of the Bank.

17 Share capital

As per the Federal Law No. 7 the authorized share capital is 10 billion shares at AED 1 each with paid up capital of AED 5 billion required to be fully paid by the Federal Government. The issued and fully paid up share capital at 31 December 2016 comprise of 2,195,966 thousand ordinary shares of AED 1 each *(2015: 2,195,966 thousand ordinary shares of AED 1 each)*.

18 Reserves

Reserves comprise of:

Legal reserve

Legal reserve represents the amounts transferred from Emirates Industrial Bank to the Bank, in addition to the reserve required in accordance with Article 43 of the Bank's Articles of Association.

Special reserve

Special reserve is created based on Article 82 of the Federal Law No. 10 for the year 1980 of the Central Bank and monetary system, and according to Article 43 of the Bank's Articles of Association.

19 Commitments and contingent liabilities

The commitments as at the date of the report was as follows:

	2016 AED'000	2015 AED'000
Unwithdrawn credit commitments	**49,834**	28,519

Unwithdrawn credit commitments represents contractual commitments to provide loans and credit facilities. Usually these commitments have fixed expiration dates or other conditions for cancellation and may require payment of a fee. Due to the possibility of an expiration of these commitments without being withdrawn, the total contractual values of these do not necessarily represent future financial obligation.

The bank has no other contingencies and commitments as at the year end.

20 Interest income

	2016 AED'000	2015 AED'000
Bank placements and deposit accounts	**109,378**	72,874
Loans	**10,985**	18,537
Central Bank of the UAE	**26**	12
Loans to governmental establishments	**3,350**	4,259
Fixed income securities	**6,594**	680
	130,333	96,362

21 Interest expense

	2016 AED'000	2015 AED'000
Deposits from governmental authorities and establishments	**6,409**	9,574
Deposit of Sheikh Zayed Housing Program	**34,522**	21,830
Managemnet fees-fixed income and others	**512**	-
	41,443	31,404

22 Income from investment securities

	2016 AED'000	2015 AED'000
Gain on revaluation of financial assets at fair value through profit or loss	**26,783**	12,000
Gain on sale of available-for-sale investments	**4,927**	-
Dividends income	**15,427**	15,476
	47,137	27,476

23 Other income

	2016 AED'000	2015 AED'000
Loss on changes of fair value of properties	**(6,392)**	(10,775)
Rental income on investment properties	**31,188**	29,809
Service charges	**(6,004)**	(5,630)
Other rental income	**1,592**	962
	20,384	14,366

24 Operating expenses

	2016 AED'000	2015 AED'000
General and administrative expenses	**14,010**	17,504
Depreciation	**11,365**	6,307
Others	**-**	3,592
	25,375	27,403

25 Related party transactions and balances

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

Related parties comprise key higher management personnel, and their related companies and the institutions and authorities of the federal government. In the normal course of business, the Bank had various transactions with its related parties. Transactions are entered into with related parties on terms and conditions approved by the bank's management. The following summarises transactions and balances with related parties for the period:

a. Loans to governmental establishments amounted to AED 114.9 million *(2015: AED 94.7 million)*.

b. Ijarah and Estisnaa contracts amounted to AED 63.3 million *(2015: AED 77.6 million)*.

c. Funds of Sheikh Zayed Housing Program *(Note 16)*.

d. Deposits from governmental authorities and establishments amounted to AED 2,200 million *(2015: AED 3,300 million) (Note 14)*.

The Bank carries out various transactions in the normal course of business with its shareholders, directors and officers and investee companies.

Significant balances and transactions with related parties during the year were as follows:

	2016 AED'000	2015 AED'000
Balances with related parties:		
Loans and advances	**178,168**	172,299
Deposits from governmental authorities and establishments	**2,200,000**	3,300,000
Transactions with related parties:		
Directors remuneration	**1,650**	1,700

26 Cash and cash equivalents

For the purpose of the cash flows statement, cash and cash equivalents comprise:

	2016	2015
	AED'000	AED'000
Cash and balances with the UAE Central Bank	**160,412**	26
Due from other banks – balances with original maturities of three months or less	**2,697,154**	2,072,112
	2,857,566	2,072,138

27 Comparative figures

Certain items have been reclassified, from the Bank's prior year financial statements to conform to the current year's presentation and improve the transparency of certain line items of the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and the notes to the accounts.

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