EuropeArabBank

Europe Arab Bank plc - Pillar III Disclosure

31 December 2015

Table of Contents

1. Overview

1.1 Introduction

The aim of the capital adequacy regime is to promote safety and soundness in the financial system. It is structured around three 'pillars': Pillar 1 on minimum capital requirements; Pillar 2 on the supervisory review process; and Pillar 3 on market discipline. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess key pieces of information on that firm's capital, risk exposures and risk assessment process. The disclosures contained in this document cover the qualitative and quantitative disclosure requirements of Pillar 3, set out in the EU's Capital Requirements Regulation ("CRR"), and are based on data as at 31 December 2015 with comparative figures for 31 December 2014 where relevant.

1.2 Capital Requirement Framework

The capital framework which firms are required to apply is described below.

- Pillar 1 sets out the minimum capital requirements that firms are required to meet for credit, market and operational risk.
- Pillar 2A/ Individual capital guidance (ICG) sets out the requirements on firms with regard to their internal capital adequacy assessment processes (ICAAP's), internal procedures and control mechanisms. The PRA expect that firms should meet Pillar 2A with at least 56% of Common Equity Tier1 capital (CET1).
- Capital planning buffer (CPB) is designed to be able to absorb losses and or cover increased capital requirements in adverse circumstances which are outside the firm's control. The CPB is being superseded by the Capital Conservation (CCB), the Countercyclical Buffer (CCyB) and the PRA buffer. The CCyB came into effect from 2 October 2015 and the CCB and PRA buffers from 1 January 2016
- The CCyB requires the firm to build up capital when aggregate growth in credit is judged to be associated with the buildup of system wide risk, and can be drawn down to absorb losses during periods of stress.
- Capital conservation buffer (CCB) is designed to enable firms to absorb losses in stressed periods. The CCB of 2.5% is comprised of CET1 capital and is required to be maintained above the regulatory capital minimum requirement. This buffer will be phased in transitionally from 1 January 2016.
- PRA Buffer will be set by the PRA as incremental to Pillar 1, Pillar 2A and CRD buffers that replace CPB.

1.3 Scope

Europe Arab Bank ("EAB") plc, whose registered office is at 13-15 Moorgate, London EC2R 6AD, is registered in England and Wales with number 5575857, and is authorised by the Prudential Regulation Authority ("PRA") and regulated by the UK Financial Conduct Authority ("FCA") and the PRA. EAB has overseas branches in France, Germany and Italy. EAB is a wholly-owned subsidiary of Arab Bank plc.

EAB makes use of the provisions laid down in the CRR and has prepared the reporting to the PRA and the Pillar 3 disclosures on a solo-consolidated basis. The 2015 Annual Report has been prepared on a company only basis. The differences are not considered material and are noted in Appendix II.

EAB has not applied for any Internal Ratings Based ("IRB") waivers and consequently no Pillar 3 IRB disclosures are included in this document.

1.4 Disclosures and Policy

In accordance with the requirements of the CRR, the disclosures contained in this document cover both the qualitative (e.g. processes and procedures) and quantitative (e.g. actual numbers) requirements. In addition, the disclosures should be read in conjunction with EAB's most recent Annual Report.

The disclosures are required to be made on at least an annual basis and, if appropriate, some disclosures will be made more frequently. EAB has an Accounting Reference Date of 31 December, and such disclosures are made as soon as practicable after publication of the Annual Report and Accounts.

The disclosures are prepared by management, and reviewed and approved by the Board of Directors ("the Board"), prior to publication on EAB's website (www.eabplc.com).

2. Risk Management Objectives and Policies

EAB follows an 'Enterprise Risk Management' ("ERM") approach.

2.1 Overview

The Board reviews the Group-wide Risk Management Framework on an annual basis.

The Risk Management Framework sets out the high level arrangements for risk management, control and assurance. It is designed to provide a structured approach for identifying, managing, measuring, assessing, monitoring, controlling and reporting financial and non-financial risk within EAB on behalf of customers, depositors, policyholders, employees, Arab Bank Group and EAB's regulators.

Effective and efficient risk governance and oversight provide management with independent assurance that EAB's business activities will not be adversely impacted by risks. This in turn reduces the uncertainty of achieving EAB's strategic objectives.

The ultimate responsibility for risk management lies with EAB's Board. The Framework document describes the framework through which EAB's Board satisfies itself that those responsibilities are discharged.

2.2 Risk Principles

EAB's ERM arrangements are based on the following five principles:

Principle 1: Risk management accountability rests with each department.

Departments are responsible for the continuous and active management of their own risks to ensure that risk and return are balanced.

Principle 2: Independent and effective risk control and assurance

The risk control and risk assurance functions are independent, clearly mandated to control and challenge the business robustly, and have sufficient weight and standing in EAB to achieve this.

Risk assurance as provided by Internal Audit ensures that risk management and control are effective.

Principle 3: Risk disclosure

The risk control process is underpinned by comprehensive, proportionate, transparent and objective disclosure of risk exposures to stakeholders.

Principle 4: Capital, liquidity, earnings and reputation protection

Capital, liquidity and earnings are protected by the effective controlling of the risk exposures across all material risk types and businesses. EAB's reputation is protected through the proactive management and control of risks.

Principle 5: Ethics, culture and embedding

A strong ethical and risk culture is maintained so that risk awareness is embedded into all EAB activities.

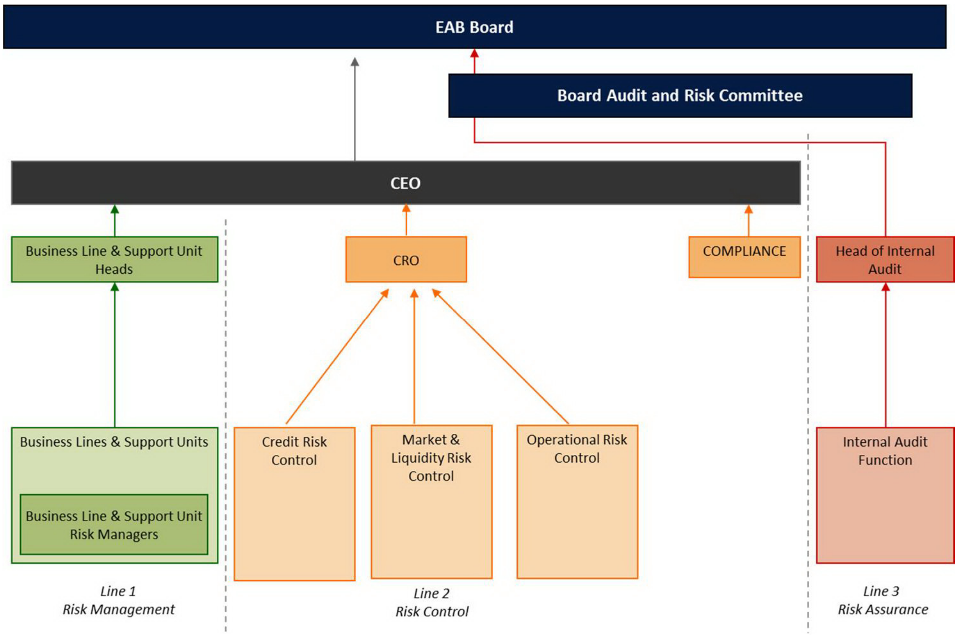
2.3 Risk Governance

EAB's risk governance is predicated on the industry standard Three Lines of Defence Model, which encompasses the following key elements:

- Line 1 has the responsibility for risk management - comprising of areas where risk taking activities occur and the functions that enable/support these activities. Line 1 in EAB includes the Strategic Business Units and Support Units.
- Line 2 is responsible for risk control - providing independent oversight, control and challenge of risk and compliance issues across EAB. As such, Risk and Compliance

are located within Line 2. Line 2 Risk is tasked with mandates of Control, Co-ordination and Challenge.

- Line 3 is responsible for risk assurance - Internal Audit acts as the risk assurance function and provides confirmation that both the respective Line 1 risk management and Line 2 risk control activities are operating effectively and in accordance with the stipulated risk governance arrangements.



The Board has overall accountability for risk governance and sets the tone, philosophy, high level principles and expectations. Within EAB, the Board has delegated this accountability to the Chief Executive Officer ("CEO"). The CEO is responsible for developing an effective risk management (including governance) framework and appoints the Chief Risk Officer ("CRO") to develop and manage this.

EAB uses the following risk committees to manage, monitor and control risk in EAB:

- The Board – Ultimate responsibility for risk rests with the Board, the primary governing body of EAB. Whilst retaining overall responsibility for risk, the Board delegates responsibility for risk management and control to the Chief Executive (CEO) and for oversight of independent risk control and assurance to the Board Audit and Risk Committee. The Board approves recommendations made by the Board Audit & Risk Committee and formally sets the risk appetite for EAB.
- The Board Audit & Risk Committee ("BARC") – The Board Audit and Risk Committee is responsible for oversight of risk control and assurance. It reviews all aspects of the ERM Framework, including risk appetite, policies and reporting, and makes recommendations to the Board. It reviews reports from the Executive Risk and Compliance Committee, Risk, Compliance and Internal Audit.
- The Executive Committee ("EXCO") – EXCO has primary Executive responsibility for managing risk. It brings together the risk management and risk control functions to resolve issues.
- The Executive Risk & Compliance Committee ("ERCC") – This is established under the authority of the CEO, and chaired by the CEO or CRO. It is responsible for the control oversight on all the risks faced by EAB and advises EXCO, Board and Board Audit & Risk Committee on risk management matters such as:

  - EAB's risk appetite statement, and

- other material matters relating to risk strategy, policies and limits - in conjunction with ALCO in relation to funding, liquidity and market risks and the ECC in relation to credit risks.

- The Executive Credit Committee ("ECC") – This committee reviews proposals for new credit applications and the renewal of existing credits as well as instructing on any remedial actions required. It operates in a Line 1 (Risk Management) capacity.
- The Asset Liability Committee ("ALCO") – This is the executive committee that oversees the execution and management of the balance sheet, liquidity and market risk as well as the capital planning for EAB. As such it straddles lines 1 and 2. It liaises closely with the Arab Bank Group 'High ALCO' to ensure close alignment with the Group Treasury function and with the Executive Risk and Compliance Committee on developing recommendations to EXCO/Board on all material changes to policies, frameworks and limits.
- The Operational Risk Committee ("ORC") – This oversees EAB's Operational Risk Framework and advises the Executive Risk & Compliance Committee on all operational risk management matters, including Business Continuity and Information Security. It oversees the Bank's approach to Fraud Risk Management. It provides independent oversight, control and challenge of operational risk issues - and operates in a Line 2 (Risk Control) capacity.
- The Financial Crime Compliance Committee -This committee is a sub-committee of the Executive Risk and Compliance Committee (ERCC). The aim of this committee is to achieve and evidence the formal engagement of senior management and EAB's approach for managing financial crime risk. The committee enables discussion and consultation on financial crime strategy, Risk Assessment, Risk appetite, policies and procedures. The committee approves key financial crime related documents such as the Financial Crime Policy standards, makes decisions on specific high risk customers and shares information about financial crime related incidents.

The recruitment policy for members of the executive management is based on an assessment of behavioural competency as well as technical competence for the individual role. EAB has an equal opportunity policy with regard to its selection of members of the management body and does not set any specific levels for diversity.

2.4 Material Risks

EAB is exposed to the following material 'causal' risks:

- Credit
- Liquidity
- Operational
- Market
- Business
- Regulatory
- Capital

These material risks, along with specific risks within the material risks, are identified on the Risk Map. The Risk Map is used as one basis for determining the focus of the Risk Control teams and the level of effort and investment put into the related parts of the control framework. Risk Control works with all line managers to ensure that all material risks are mapped correctly to identify areas requiring attention. The Risk Map is approved by the Board and identifies the inter-linkages between the main risks so that the potential financial, reputational and regulatory impact can be assessed and reported on consistently.

All the risks above are continually assessed. The process for assessing which risks require capital to be allocated is set out in the ICAAP, which is referred to later in this disclosure document.

2.5 Risk Appetite

EAB's Risk Appetite defines the types and amounts of risk that EAB is willing to take in pursuit of its business strategy. This also ensures that EAB is compliant with one of the requirements of the UK Corporate Governance Code, which states that 'The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives.'

EAB's risk appetite is articulated in Board-approved Risk Appetite Statements:

- EAB's appetite is for doing business that is primarily aligned to the core 'Bridge to MENA' strategy and vision.
- EAB takes a conservative approach to credit risk, and will not sacrifice credit quality in order to make short-term gains.
- EAB closely manages and controls all liquidity and funding risks in order to strongly protect our depositors.
- EAB maintains healthy capital ratios, with headroom over any regulatory constraints.
- EAB takes a conservative approach to market risk, and will not take unnecessary risks in order to make short-term gains.
- EAB has limited appetite for operational losses that may arise from doing business.
- EAB has zero tolerance for financial crime or compliance breaches.

Risk Appetite measures are the most important measures which the Board has approved to ensure that the high-level risk objectives in the Risk Appetite Statements are met. Other more detailed Risk Appetite limits are approved by the Board and set out in the ICAAP, ILAAP, Credit Policy Manual, Market Risk limits and other Risk Acceptance Criteria documents.

2.6 Risk Management Process

In accordance with the ERM Framework, EAB maintains high standards of internal controls, with clear accountabilities for risk management, which enables effective oversight and management of risks.

EAB assesses the risks faced, and the controls to manage those risks, using a variety of quantitative and qualitative techniques. For example, EAB uses an internal credit rating system to derive the credit rating for individual corporate non-Bank counterparties.

EAB uses various methodologies for stress and scenario testing to analyse the probability of default and expected loss, as well as monitoring limits to avoid any breaches and to provide advance warning within a certain level of tolerance.

EAB's risk profile is assessed at all levels by producing management information that is relevant, consistent and timely for reporting to the Board, and other relevant committees.

Reporting of these risks is commensurate with the nature, size and complexity of EAB's operations and include comprehensive risk dashboards supplied to all meetings of the ERCC and the BARC as well as management information packs for the ALCO, ECC and ORC.

2.7 Stress Testing

EAB engages in thorough stress testing, scenario analysis and contingency planning in order to better understand and prepare for low-frequency, high impact events. The stress testing in EAB includes multi-risk scenarios based on both macroeconomic scenarios (systemic scenarios) and EAB-specific scenarios (idiosyncratic scenarios) as well as combinations of both.

EAB’s stress testing and contingency planning are set out in its Internal Capital Adequacy Assessment Process document (“ICAAP”), Individual Liquidity Adequacy Assessment Process document (“ILAAP”) and Recovery Plan document (“RP”). These documents are updated at least annually and are reviewed by the various governance committees including the BARC and the Board.

The stress testing set out above is embedded in the risk management processes of EAB through at least quarterly updates which are included in risk reporting to governance committees.

In addition to the stress testing described above, EAB carries out at least annually a “reverse stress testing” exercise to identify scenarios that may undermine the viability of EAB’s business model. This exercise is documented in the annual update of the ICAAP.

3. Capital Resources

At 31 December 2015 and throughout the financial year, EAB has complied with the capital requirements that were set out by regulators. EAB continues to use the standardised approach to credit, market and operational risk to calculate its capital requirements.

The table below represents EAB's composition of capital resources.

	2015 €'000	2014 €'000
Called up share capital	609,998	609,998
Retained earnings	(296,551)	(304,328)
Foreign exchange reserve	(2,736)	(4,595)
Accumulated changes in fair value	(189)	2,317
Common Equity Tier 1 (CET1) pre regulatory adjustments	**310,522**	**303,394**
Regulatory adjustments	(1,049)	(2,317)
Common Equity Tier 1 (CET1)	**309,473**	**301,076**
Tier 1 capital	**309,473**	**301,076**
Tier2 capital – subordinated debt *(a)	**231,165**	**207,966**
Total capital resources	**540,638**	**509,042**

**(a) EAB has issued US Dollar perpetual subordinated floating rate notes on terms which qualify for inclusion in Tier 2 Capital.*

(See Appendix II for the reconciliation of regulatory capital to the reported balance sheet and Appendix III for the transitional CRDIV disclosure template as published by the EBA in Implementing Technical Standards (ITS) 2013/01).

4. Leverage Ratio

The Leverage Ratio was introduced under the Basel III reforms as a simple, transparent, non -risk based ratio intended to restrict the build-up of leverage in the banking sector to avoid distressed deleveraging process that can damage the broader financial system. It is defined as the ratio of Tier 1 capital to total exposures (pre Credit risk mitigation and risk weighting of exposures). The Basel Committee have set a minimum leverage ratio of 3% that must be met by all banks.

As at 31 December 2015 EAB has a leverage ratio of 7.37%.

5. Capital Adequacy and Management

5.1 Capital Management Approach

EAB maintains an actively managed capital base to cover risks inherent in the business. The primary objectives of capital management are to ensure that EAB complies with regulatory capital requirements and maintains healthy capital ratios in order to support its current and future activities and maximise shareholder's value.

EAB manages its capital structure and makes adjustments to it in the light of changes in the economic conditions, regulatory requirements and the risk characteristics of its activities.

An internal assessment of capital needs ("ICAAP") is undertaken at least annually and is presented to the various governance committees for review, challenge and approval. The ICAAP governance process ensures that the Board is engaged in the process and reviews and approves the ICAAP. The ICAAP describes how risks are assessed, controlled, monitored, mitigated and reported and helps the management determine what might be required to maintain EAB's solvency assuming certain stressed conditions. The process includes an analysis of the Pillar 2 capital required and includes appropriate "add-ons" to required capital to reflect Pillar 2 risks. In addition, the process incorporates stress testing of all components of EAB's capital adequacy and is used to calculate EAB's own estimate of its Capital Planning Buffer ("CPB") which represents a forward-looking capital buffer requirement. Over time the CPB is to be replaced by the CRR regulatory buffers (Capital Conservation Buffer, Countercyclical Buffer and PRA buffer). In addition, reverse stress testing is also performed on all elements of capital adequacy and is used to inform the firm's Recovery plan. EAB's assessment during 2015 is that it had more than adequate capital resources to withstand the effects of a severe economic downturn.

The minimum amount of regulatory capital required is determined in accordance with the relevant rules and the Individual Capital Guidance ("ICG") received from the PRA. Included in this ICG is a requirement for EAB to maintain a specific amount of additional buffer called the ICG Capital Planning Buffer ("CPB") which may only be utilized in certain limited circumstances. At 31 December 2015, and throughout the year, EAB's capital in place exceeded the minimum ICG requirement.

The table below provides a breakdown of EAB's Pillar 1 capital requirements at 8% under the standardised approach.

	2015	**2014**
	€'000	**€'000**
Credit Risk -Credit	146,913	151,861
Credit Risk -Securitisations	10,404	10,542
Credit Risk –Counterparty Risk	849	897
Credit valuation adjustment	960	2,007
Market Risk -Traded Debt Instruments	4,077	5,748
Market Risk -Foreign Exchange	1,035	451
Operational risk	7,724	8,286
Total Pillar 1 requirement	**171,963**	**179,793**

5.2 Pillar 2

In addition to the capital required in respect of Pillar 1 risks, EAB in its ICAAP allocates additional capital in respect of other risks not addressed under the Pillar 1 minimum capital requirements. EAB has identified the following as additional risks under Pillar 2:

- Concentration Risk: this represents the capital that EAB estimates is necessary to adequately reflect the particular risk attaching to concentrations of credit risk in industries and/or regions.

- Pension Risk: this represents the capital that EAB considers necessary to adequately reflect the risk attaching to its obligations to ensure that EAB's Pension Fund is adequately funded both now and in the future.
- Interest Rate Risk in the non-Trading Book: this represents the capital that EAB estimates is necessary to adequately reflect the interest rate risk attaching to positions held in the non-Trading Book i.e. the Banking Book.
- Other Pillar 2 risks: this includes all other amounts that EAB considers appropriate to adequately reflect its exposure to Pillar 2 risks not set out above.

6. Credit Risk

6.1 Credit Risk Approach

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to EAB. EAB has adopted a policy of dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from default. EAB follows the standardised approach for the calculation of credit risk.

The Executive Credit Committee is responsible for approving credit recommendations and making other credit decisions in accordance with the delegated lending authorities within the Credit Policy Manual ("CPM"). This includes decisions on individual credits, and reviewing and making recommendations above the delegated authorities, to the Board Panel, which consists of the Chairman, CEO and a Non-Executive Director.

EAB's lending priorities are a function of the credit skills and experience of its lending officers. For reasons of safety and soundness and to maintain the quality of the portfolio, EAB will concentrate in those areas in which it has a competitive advantage, knowledge of the particular market and a good understanding of the commercial and political risks involved within those markets. Management of limits is performed daily through exceptions reports.

The Credit Policy Manual refers to all direct (loans or overdrafts), indirect (borrower is guaranteed by a third-party) and contingent credit exposures. It includes details on credit culture, lending authorities, large exposures, portfolio management, transactions with parent and affiliates, country risk exposure, problematic exposures, industry limits, collateral and provisioning.

The Board of Directors approves the CPM, Risk Acceptance Criteria ("RAC").

EAB also measures concentration exposure to each industry sector and country of risk. Credit exposures are also stress tested regularly. Portfolio risk and credit stress testing are reviewed by the Executive Risk and Compliance Committee, chaired by the CEO.

6.2 Use of Credit Mitigation Techniques

The policies and processes for collateral valuation and management are detailed within the CPM and Standard Operating Procedures of Credit Administration.

Collateral taken by EAB is detailed in the CPM and includes:

- Guarantees from financial institutions or corporates
- Guarantees and/ or insurance products from export credit agencies
- Listed Equities (subject to haircut)
- Debt Securities (subject to haircut)
- Cash
- Commercial and residential real estate

The table below represents the maximum collateral that EAB can use to mitigate direct credit facilities. This is subject to the provisions of what is deemed acceptable collateral for collateral mitigation per CRR.

	2015 €'000	2014 €'000
Cash	56,346	39,044
Guarantees	211,039	244,541
Residential real estate	87,355	68,400
Commercial real estate	287,821	266,310
Stocks, shares, bonds / rated notes	77,002	49,592
Other approved collateral	15,938	63,077
	735,501	**730,964**

Financial assets that are used for risk mitigation are valued on a daily basis with non-financial assets being revalued on a periodic basis in line with the CPM.

EAB does not regularly use netting agreements except those embedded within the ISDA agreements plus specific netting agreements with certain Arab Bank Group entities. The CPM governs such arrangements.

6.3 Use of ECAI's

EAB uses the following external credit rating agencies (ECAI) to obtain ratings for its credit exposures (but not its country risk ratings):

- Fitch
- S&P
- Moody's

The above ECAI's are used to provide the ratings for any EAB's credit exposure relating to financial institutions, corporates, banks, sovereign agencies or entities, project finance (limited), structured debt (exit portfolio), export credit agencies and non-trading book securities.

6.4 Credit Risk Exposures

The table below provides sectoral breakdown of EAB's net credit exposures (on and off balance sheet, pre credit risk mitigation ("CRM").

	2015 €'000	2014 €'000
Central governments or central banks	913,344	472,986
Institutions	920,898	1,331,443
Industrial and commercial	3,572,928	2,989,538
Retail	43,533	32,673
	5,450,703	**4,826,640**

The table below provides sectoral breakdown of EAB's net credit exposures (on and off balance sheet) pre and post CRM and credit conversion factors ("CCF") for 31 December 2015.

	Exposures Pre CRM and CCF €'000	Exposures Post CRM and CCF €'000
Central governments or central banks	913,344	1,013,242
Institutions	585,628	541,833
Corporates	3,167,583	1,454,991
Retail	43,533	43,510
Secured by mortgages on immovable property	344,491	344,491
Short term claims on institutions and corporates	335,270	335,270
Exposures in default	16,270	10,778
Other items	44,584	43,870
	5,450,703	**3,787,985**

The table below provides geographical breakdown of EAB's net credit exposures (on and off balance sheet, pre CRM).

	2015 €'000	2014 €'000
UK	602,182	539,607
Europe	2,797,686	2,092,066
MENA	1,322,275	1,362,697
North America	552,793	595,447
Asia	116,028	140,391
Other	59,739	96,432
	5,450,703	**4,826,640**

The table below provides EAB's net credit exposure (on and off balance sheet pre credit risk mitigation) by credit quality step ("CQS") using the external ratings sourced from the External Credit Assessment Institutions ("ECAI") for 31 December 2015.

	Central banks and Institutions €'000	Customer €'000	Available for Sale Securities €'000	Total €'000
CQS 1	865,886	129,667	141,133	1,136,686
CQS 2	364,456	149,705	278,284	792,445
CQS 3-5	248,473	524,988	134,249	907,710
CQS 6 and unrated	99,015	2,498,458	16,389	2,613,862
	1,577,830	**3,302,818**	**570,055**	**5,450,703**

6.5 Securitisations

EAB acts only as an investor in a limited number of securitisations which relate to debt securities and residential mortgages. These are legacy/ exit positions. The total credit exposure value as of 31 December 2015 amounts to €35m (2014: €56m).

6.6 Counterparty Credit Risk

Treasury is authorised only to execute trades with approved counterparties. A recommended list of desired counterparties, their credit ratings and counterparty limits has been drawn up by the Treasurer, reviewed by Credit Department and approved by the Executive Credit Committee and the Board of Directors. This approval is updated at least once a year.

Any adverse event affecting the credit standing of any names in the approved counterparty list will be advised immediately in a note to ALCO and the ECC for appropriate action. Traders will note the adverse notice and act accordingly.

We do not believe that a downgrade in EAB's own credit rating will have a material impact on the amount of collateral that EAB itself would have to provide, though this is kept under close and constant review.

EAB's objectives and policies on managing the risks that arise in connection with derivatives are included in note 1(i) and note 30 of the Annual Financial Statements.

EAB uses the Mark to Market approach for the calculation of counterparty credit risk on its derivative population.

The gross notional amounts represent the amounts of all outstanding contracts at year-end. It is the sum of the absolute amount of all purchases and sales of derivative instruments. The notional amounts of the derivatives provide a basis for comparison with instruments recognised on the balance sheet, but does not indicate the amounts of future cash flows involved or the current fair value of the instruments and therefore, do not indicate EAB's exposure to credit or price risks.

Derivatives are measured at their fair value, which is calculated as the present value of future expected net contracted cash flows at market related rates as of the balance sheet date.

EAB enters into the following main types of derivative contracts:

Swaps

These are over-the-counter ("OTC") agreements between two parties to exchange periodic payments of interest, or payments for a related index, over a set period based on notional principal amounts. EAB enters into interest rate swaps, exchanging fixed rates for floating rates of interest based on notional amounts. All business SWAP trades entered into from the beginning of 2015 are conducted through central clearing.

Interest rate futures

Interest rate futures are derivative contracts that allow the buyer and seller agreeing to future delivery of an interest bearing asset and lock in a certain price for a future date.

Currency forward contracts

Forward foreign exchange contracts are OTC agreements to deliver, or take delivery of, a specified amount of an asset or financial instrument based on a specified rate applied against the underlying asset or financial instrument, at a specified date.

Derivative financial instruments held or issued for trading purposes

Most of EAB's derivatives trading activities relate to deals with customers that are normally offset by transactions with other counterparties. EAB may also, from time to time, take limited short term positions within the prescribed market risk limits approved by the Board of Directors. Also included under the classification are any derivatives entered into for risk management purposes that do not meet the IAS39 hedge accounting criteria.

Derivative financial instruments held or issued for hedging purposes

As part of its asset and liability management, EAB uses derivatives for hedging purposes in order to reduce its exposure to market risk. This is achieved by hedging specific financial instruments, portfolios of fixed rate financial instruments and forecast transactions.

The accounting treatment, explained in note 1(i) hedge accounting, depends on the nature of the item hedged and compliance with IAS39 hedge accounting criteria.

The table below represents EAB's derivative positions by product type as at 31 December 2015.

	Notional €'000	FV Asset €'000	FV Liability €'000
Derivatives held for trading			
Interest rate contracts:			
Interest rate swaps	458,652	7,068	9,930
Interest rate futures	41,315	-	86
Exchange rate contracts:			
Currency forward contracts	593,041	5,808	1,904
Net Counterparty Credit Risk exposure due to derivative positions	1,093,008	12,876	11,920
Derivatives used as fair value hedges			
Interest rate swaps	369,133	455	3,952
Total recognised derivative assets and liabilities	**1,462,141**	**13,331**	**15,872**

7. Market Risk

EAB's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. EAB has some appetite for trading securities and other instruments, mainly in relation to the management of EAB's overall liquidity requirements, which expose it to financial risk of changes in bond prices.

Risks are managed individually through the use of limits and restricting product exposures. The management and measurement of market risk continues to evolve using more stress and scenario tests and a greater level of reporting, as well as using a variety of techniques, including sensitivities supported by analytical review.

Market risks are included under Pillar 1 following the requirements of the standardised approach for specific risk capital charge and the interest rate maturity method for general market risk.

All market risks are monitored and regularly considered by the Board, BARC, ALCO and the ERCC.

Sensitivity Analysis

The following table details EAB's sensitivity to various risk variables. The analysis has been performed using the following assumptions:

- Reasonable changes in market risks are considered based on internal reporting to key management personnel and different economic environments.
- EAB has measured the EUR equivalent of movements in interest rates, FX rates and credit spreads for GBP, EUR and USD only. EAB does not have a material exposure to changes in other foreign interest rates, other foreign currency rates or bond prices in other currencies and as such sensitivity analyses have not been performed for other currencies.
- A positive number indicates an increase in profit and a negative number indicates increase in loss.

- All scenarios should be considered in isolation as they represent different risks and were calculated holding all other variables constant.

Interest rate sensitivity	2015 Impact on Profit/ (Loss) €'000
100bps increase in interest rate	1,487
100bps decrease in interest rate	(478)
25bps stepped increase to 100bps over 2 months	1,449
25bps stepped decrease to 100bps over 2 months	(478)

Please note that all interest rate risk exposures are transferred to and aggregated in the Treasury department and are included in the above analyses of interest rate sensitivity.

8. Liquidity Risk

EAB follows a conservative approach to liquidity risk. A liquidity buffer of high quality liquid assets is retained for risk management and prudential purposes.

EAB assesses the bank's exposure to liquidity risk in three main categories and seeks to ensure that appropriate mitigation is effected where possible, and that adequate insurance and contingency plan steps have been adopted to address the possibility of severe liquidity shocks.

The three categories are:

- Short term tactical liquidity risk

The risk that EAB's liquid assets are insufficient to meet its short term commitments.

- Structural liquidity risk

The risk that EAB's business model (and consequently, its balance sheet) develops in a way that causes difficulty attracting adequate funding on reasonable terms; and/or

The risk that the structure of the balance sheet is unduly exposed to disruption in its funding markets.

- Contingency liquidity risk

The risk that EAB experiences unexpected and/or acute liquidity shocks

EAB manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows (both stressed and unstressed) and managing the maturity profiles of financial assets and liabilities.

An assessment of liquidity needs is normally undertaken at least annually and is presented to the ALCO, BARC and the Board to review and challenge. This is known as the Internal Liquidity Adequacy Assessment Process ("ILAAP") and is also available for review by the PRA upon request. The ILAAP describes how risks are assessed, controlled, monitored, mitigated and reported and helps the management determine what might be required to maintain EAB's liquidity assuming certain stressed conditions.

The minimum LCR is determined in accordance with the PRA and EU CRR rules, and EAB's assessment during 2015 is that EAB complied with the liquidity requirements set out by the PRA in the PRA rulebook section "Internal Liquidity Adequacy Assessment" as well as the EU CRR Part Six "Liquidity" and had more than adequate liquidity resources to withstand the effects of a severe liquidity shock.

8.1 Liquidity Coverage Ratio

CRDIV introduced the concept of the Liquidity Coverage Ratio ("LCR"). The EU commissioned Delegated Act on LCR makes the LCR a binding requirement from 1st October 2015. Until the PRA issues further guidance, firms are not required to disclose any quantitative data.

EAB does not envisage any significant changes to the composition of its balance sheet and operating model and processes to meet the upcoming LCR requirements.

9. Operational Risk

EAB actively manages operational risk in accordance with regulation and guidance from the FCA and the PRA (as well as guidelines stipulated by other bodies such as the Committee of European Banking Supervisors).

The objective is to maintain high standards of operational risk management and EAB has consequently adopted key tools such as Risk and Control Self-Assessment, operational risk issue and event reporting.

Independent review and oversight of Operational risk is provided by the Head of Operational Risk who reports to the Chief Risk Officer.

This structure is supported by functional and geographic Operational Risk liaisons, an ORC, an Operational Risk Policy, and systems and controls which set the standards, approach and framework for identifying, assessing, measuring, reporting, controlling and managing operational risks.

EAB adopts the standardised approach for calculating Operational Risk capital and consequently embarks on rigorous risk identification exercises to establish any Pillar 2 requirement for Operational Risk.

10. Impairment Provisions

10.1 Policy

EAB's policy is to recognize impairment provisions in a timely manner through a focused approach to problem assets on the balance sheet. Impairment reviews including recommendations for new impairment provisions or releases of previously recognised impairment provisions are carried out regularly. These include both specific and collective impairment provisions.

Certain factors determine whether a specific impairment provision should be considered, and these include, but are not limited to:

- Significant financial difficulty of the borrower;
- A breach of contract such as a default or delinquency in payment of interest or principal;
- Forbearance, where EAB, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that it would not otherwise consider;
- It becoming probable that the borrower will enter insolvency or other financial reorganization;

- The disappearance of an active market because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows.

In addition, a collective impairment assessment has been carried out for a set of financial assets with similar risk characteristics using EAB's internal credit rating system. This involves application of judgemental assumptions including potential impairment on default and forced sale discounts supported by discounted cash flow analysis prepared on a case by cases basis for the relevant assets.

The table below details EAB's impairment balance movements:

	2015 €'000	2014 €'000
As at 1 January	194,557	184,563
Charged to income statement	4,036	10,136
Amounts written off / reversals	(127,776)	(3,043)
Recoveries/ releases during the year	(1,770)	(9,284)
Translation adjustments	912	12,186
	69,959	194,557

The policy on impairment measurement and methodology are provided in the Notes to the Annual Financial Statements. Impairment loss allowance includes collective impairment of €17.8m (2014: €17.3m).

Included in the impairment allowance are assets with a balance of €34m (2014: €97m) which have been placed under administration and/or liquidation.

10.2 Past due exposures

Past due amounts are monitored and followed up for settlement. Specific action is taken when the exposure is 30 days and 60 days overdue, including escalation to the Executive Credit Committee. The exposure is classified and turned to Non-Performing if settlement is 90 days or more past due.

Once an exposure has been placed on non-performing status it can be removed only after all outstanding amounts of principal and interest have been received or where a suitable restructuring/rescheduling agreement has been approved and signed and the counterparty is current on all its obligations under the revised agreement.

The table below provides EAB's past due loans and impairments as at 31 December 2015:

	Balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Total €'000
Neither past due or impaired	1,231,164	1,320,937	947,114	13,331	3,512,546
Past due or impaired	-	48,228	27,049	-	75,277
Gross	1,231,164	1,369,165	974,163	13,331	3,587,823
Less: allowance for specific impairment	-	(34,625)	(17,524)	-	(52,149)
Less: allowance for collective impairment	-	(17,811)	-	-	(17,811)
Net	1,231,164	1,316,729	956,639	13,331	3,517,863

The majority of provisions relate to legacy business, which are no longer in the firm's strategy and would not meet current credit policy requirements.

The table below provides EAB's comparative past due loans and impairments as at 31 December 2014:

	Balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Total €'000
Neither past due or impaired	825,192	1,487,380	990,445	10,721	3,313,738
Past due or impaired	-	165,560	26,030	-	191,590
Gross	825,192	1,652,940	1,016,475	10,721	3,505,328
Less: allowance for specific impairment	-	(160,281)	(17,015)	-	(177,296)
Less: allowance for collective impairment	-	(17,261)	-	-	(17,261)
Net	825,192	1,475,398	999,460	10,721	3,310,771

EAB's provisions by the largest industry exposures are provided below.

	2015 €'000	2014 €'000
Commercial real estate	9,180	128,397
Manufacturing and trading	23,905	30,501

87% of the provisions emanate from Europe, as EAB's major geographic area of business.

11. Asset Encumbrance

Certain limited activities undertaken by EAB result in certain assets being encumbered. These activities are largely limited to correspondent banking services provided and derivatives. As of 31st December 2015, EAB's balance sheet was composed of encumbered assets of €127m and unencumbered assets of €3,466m. Further details are provided in Appendix IV.

12. Remuneration

12.1 Decision making process

EAB has an established Nomination & Remuneration Committee ("the Committee") which comprises the Chairman of the Board of Directors, the Chairman of the BARC (an Independent Non-Executive Director) and a second Independent Non-Executive Director. The Committee meets twice a year (or as and when required), and is responsible for ensuring that EAB has an adequate remuneration policy in place which is sufficient to attract and retain qualified individuals.

The Committee develops and proposes to the Board for approval:

- EAB's Remuneration Policy on terms compliant with the FCA Remuneration Code; and
- Such other new, or amendments to the existing, compensation plans as the Committee deems necessary to maintain the competitiveness of EAB in light of its current and anticipated future operations, all such compensation plans to be in compliance with local laws and regulatory requirements.

The Committee is informed of and advised on any proposed major changes in employee benefit structures throughout EAB.

The Committee reviews EAB's Remuneration Policy annually, taking into consideration input from Line 2 and Line 3 Risk control functions (Compliance, Risk and Internal Audit, together "Risk Management functions"). Any proposed amendment to the Remuneration Policy is submitted by the Committee to the Board for review and approval.

The Committee reviews EAB's Remuneration Policy Statement annually, in order to record EAB's self-assessment of compliance with the FCA Remuneration Code.

The Committee's primary responsibilities are to:

- Consider and recommend candidates for appointment to the Board of Directors and Board Committees;
- Appoint the Executive Committee;
- Regularly review succession planning;
- Set the remuneration packages of the Executive Committee members and Code Staff and review their performance assessments taking into consideration input from risk management functions;
- Recommend the terms of EAB's Remuneration Policy and undertake the annual review of the Remuneration Policy Statement in line with the FCA Remuneration Code requirements.

The performance related element of remuneration is a significant component in this regard, that shall be aligned with the best interests of the EAB stakeholders.

The Committee will take into account its Performance Measurement Duties set out in its Terms of Reference and EAB's Remuneration Policy when setting remuneration packages or evaluating bonuses.

The bonus pool is developed using a top-down process. The CEO makes the recommendation for the overall bonus pool amount to the Nominations and Remuneration Committee and it is set formally by that Committee, based on the information received from the relevant business units, control functions and support functions. Using all of the information available, the Committee agrees the bonus pool based on EAB's performance over the year, individual performance, market conditions, the requirement to retain and motivate staff and, above all, affordability.

No Director or Code Staff member shall be involved in any decisions as to their own remuneration.

EAB's Compliance, Risk and Internal Audit functions provide input regarding the structure of EAB's remuneration arrangements, and report to the CEO and Nominations & Remuneration Committee, including where there are concerns about compliance with EAB's Compliance and Risk policies.

The Committee have appointed Towers Watson to advise on the determination of its remuneration policy and specifically in determining arrangements to ensure compliance with the FCA Remuneration Code.

12.2 Link between Pay and Performance

EAB has no pre-agreed numerical formula for performance awards. Awards are determined firstly on EAB's overall performance, then on the individual's performance, contribution and value, including assessment of their behavioural competencies. Performance related element of employee remuneration is aligned with the best interests of all EAB's stakeholders and is not based on the financial (sales) performance of any individual.

Individual objectives are set for each staff member, including Code Staff members, relevant to their specific role and include a range of performance measures designed to encourage adherence to EAB's Compliance and Risk Management policies, as well as desired behaviours.

The variable remuneration of staff is based on the firm's operating profit as this is reflective of the firm's performance. This bonus pool is based on EAB's performance and ability to pay for that year. The Nominations and Remuneration Committee liaises with Finance, Risk Management, Credit and other functions as necessary, to ensure that the remuneration scheme does not adversely affect EAB's Capital Adequacy Ratio.

12.3 Ratio of Fixed to Variable remuneration

The variable remuneration represents a percentage of salary and is not a multiple. The fixed component therefore will represent a sufficiently high proportion of the total remuneration to enable flexibility on any variable remuneration component, including the possibility that there will be no variable component payable.

12.4 Design characteristics of remuneration system

EAB's remuneration system is designed to support EAB's business strategy, objectives, values and long-term interests, in accordance with the FCA principles and regulations, and is applied in what EAB considers to be the most appropriate manner. It is intended to achieve the following:

- Promote a sound risk management culture within EAB.
- Encourage desired behaviours consistent with EAB's culture, values and principles of good governance.
- Attract and retain individuals with the appropriate experience, competence, knowledge and skills to deliver EAB's strategy.
- Be affordable and appropriate in line with employment market practises and conditions and peer organisations remuneration structures.
- Be consistent with EAB's performance and ability to pay

All incentive award arrangements are short-term, paid annually and are totally discretionary.

EAB has been designated as a Level 3 firm by the FCA and as such is not required to have a deferral policy. There is no deferred portion of bonus applicable, and the bonus is paid in cash only (no shares). There are currently no Long Term Incentive Plans or other executive incentive schemes in place and EAB has no plans to implement any in the future.

The remuneration policy will not adversely affect EAB's Capital Adequacy Ratio.

As of 31 December 2015, EAB had 13 staff (Code staff), excluding the Chairman and the non-executive directors, whose professional activities had a material impact on the firm's risk profile.

The table below analyses the remuneration of the Code staff

	Aggregate Remuneration
Strategic business units	€1.549m
Support, risk and control functions	€4,210m
Total	€5,759m

Appendices

Appendix I: Capital Instruments main features

Capital Instruments main features template				
Issuer	Europe Arab Bank	Europe Arab Bank	Europe Arab Bank	Europe Arab Bank
Unique identifier	n/a	GB00B5WCP47	GB00B2PRPV5	n/a
Governing laws of the instrument	English	English	English	English
Regulatory Treatment				
Transitional CRR rules	Tier1	Tier2	Tier2	Tier1
Post transitional rules	Tier1	Tier2	Tier2	Tier1
Eligible at Solo/ (sub-) consolidated/ Solo & (sub-) consolidated	Solo	Solo	Solo	Solo
Instrument type	Share capital	Subordinated debt	Subordinated debt	Deferred Shares
Amount recognised in regulatory capital	€ 609,925,540	€ 137,715,710	€ 93,449,290	€ 72,000
Nominal amount of instrument	€ 609,925,540	US$150,000,000	US$101,785,000	£50,000
Issue px	100	100	100	100
Redemption px	100	100	100	100
Accounting classification	Equity	Liability - amortised cost	Liability - amortised cost	Equity
Date of issue		12/07/2011	12/07/2011	
Perpetual or dated	n/a	Perpetual	Perpetual	n/a
Original Maturity	n/a	n/a	n/a	n/a
Issuer call subject to prior supervisory approval	No	No	No	No
Optional call date, contingent call dates and redemption amount	n/a	n/a	n/a	n/a
Subsequent call dates, if applicable	n/a	n/a	n/a	n/a
Coupon/ Dividends				
Fixed or floating dividend/ coupon	n/a	Floating	Floating	n/a
Coupon rate and any related index	n/a	Libor + 0.50% per annum	Libor + 0.35% per annum	n/a
Existance of a dividend stopper	No	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory	Fully discretionary
Existence of step up or other incentive to redeem	No	No	No	No
Non cumulative or cumulative	n/a	n/a	n/a	n/a
Convertible or non -convertible	n/a	Non-convertible	Non-convertible	n/a
Write-down features	None	None	None	None
Position in subordinated hierarchy in liquidiation	n/a	n/a	n/a	n/a
Non-compliant transitioned features	n/a	n/a	n/a	n/a
If yes, specify non-compliant features	n/a	n/a	n/a	n/a

Appendix II: Reconciliation between audited financial statements and regulatory own funds as at 31st December 2015

	Audited Financial Statements €000's	Consolidation Adjustments €000's	Regulatory Own Funds €000's
Called up share capital	609,998	-	609,998
Retained earnings	(299,388)	(88)	(299,476)
Total Shareholders Equity	**310,610**	**(88)**	**310,522**
Regulatory Adjustments			**(1,049)**
Tier 1 capital			**309,473**
Subordinated notes*	231,165	-	231,165
Tier2 capital			**231,165**
Total capital resources			**540,638**

EAB has availed itself of the exemption available under Section 401 of the Companies Act 2006 and has published company only audited financial statements.

Appendix III: Transitional Own Funds disclosure as at 31st December 2015

Transitional Own funds disclosure template	**Amount at disclosure date**	**Regulation (EU) No 575/2013 Article Reference**	**Amounts subject to Pre regulation (EU) No 575/ 2013 treatment**
Common Equity Tier 1 (CET1) capital: Instruments and reserves			
Capital Instruments and the related share premium accounts	609,998	26 (1), 27, 28, 29, EBA list 26 (3)	-
of which: Instrument Type 1	609,998	EBA list 26 (3)	-
Retained Earnings	(296,753)	26 (1) c	-
Accumulated other comprehensive income (and other reserves)	(2,925)	26 (1)	-
Minority interest (amounts allowed in consolidated CET1)	202	84, 479, 480	0
Common Equity Tier1 (CET1) capital before regulatory adjustments	310,522		
Common Equity Tier 1 (CET1) capital: Regulatory adjustments			
Fair value reserves related to gains or losses on cashflow hedges	-	33 (a)	-
Intangible assets (net of related tax liability)	(1,049)		
Deferred tax asset that rely on future profitability exclduing those arising from temporary differences	0	36 (1) c , 38	
Defined-benefit pension fund assets (negative amount)	-	36 (1) e, 41, 472 (7)	-
Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	36 (1) k	-
of which securitisation positions (negative amount)	-	36 (1) kii, 243 (1) b, 244 (1) b, 258	-
Losses for the current financial year	-	36 (1) a, 472 (3)	-
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	0		0
Of which: Unrealised losses on debt securities	0	467	0
Of which: Unrealised gains on debt securities	0	468	-
Total regulatory adjustments to Common Equity tier 1 (CET1)	(1,049)		
Common Equity Tier1 (CET1) capital	309,473		
Additional Tier 1 (AT1) capital	-		-
Tier 1 capital (T1 = CET1 + AT1)	309,473		
Tier 2 (T2) capital: Instruments and provisions			
Capital instruments and the share premium accounts	231,165		-
Total regulatory adjustments to Tier 2 (T2) capital	-		-
Tier 2 (T2) Capital	231,165		
Total capital (TC = T1 + T2)	540,638		
Total Risk Weighted Assets	2,149,534		
Capital Ratios and Buffers			
Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.4%		
Tier 1 (as a percentage of total risk exposure amount)	14.4%		
Total capital (as a percentage of total risk exposure amount)	25.2%		

Appendix IV: Disclosures on Asset Encumbrance

EAB has not completed Asset Encumbrance Template B (Collateral received) and Template D (Significant information on importance of asset encumbrance) as EAB does not receive any collateral that is required to be reported on Template B and has detailed significance of asset encumbrance within the section 12 of the Pillar 3 Disclosure.

Template A-Assets

		Carrying amount of encumbered assets €000's	Fair value of encumbered assets €000's	Carrying amount of unencumbered assets €000's	Fair value of unencumbered assets €000's
		010	040	060	090
010	**Assets of the reporting institution**	126,511		3,467,520	
020	Loans on demand	45,905		110,790	
030	Equity instruments	0	-	-	-
040	Debt securities	25,000	25,000	931,639	927,266
100	Loans and advances other than loans on demand	55,606		2,357,386	
120	Other assets	-		67,705	

Template C-Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent €000's	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered €000's
		010	030
010	**Carrying amount of selected financial liabilities**	**9,484**	**16,350**
020	Derivatives	9,484	16,350
040	Deposits	-	-
090	Debt securities issued	-	-
120	**Other sources of encumbrance**	**-**	**-**