Europe Arab Bank plc - Pillar III & LCR Disclosures

31 December 2019

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1. Overview

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 2019 with comparative figures for 31 December 2018 where relevant.

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 05575857, 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 2019 Annual Report has been prepared on a company only basis. The differences are not considered material and are noted in Appendix II.
EAB follows the standardized approach in the calculation of capital charges and subsequent Pillar III disclosures.

Brexit

The UK formally left the EU on 31 January 2020 and has now entered into a transition period that will end on 31 December 2020 unless extended. After the end of the transition period, the UK is likely to lose its financial services passporting rights into the EU. In that scenario Europe Arab Bank plc ('EAB plc'), as a UK bank, will face certain restrictions in providing banking services in the EU and may no longer operate branches in the EU.

As part of our forward planning for Brexit, last year we obtained authorisation for our new EU banking subsidiary in France, Europe Arab Bank SA ('EAB SA') to take over the branch business, liabilities and assets of EAB plc in Paris, Cannes, Frankfurt and Milan (the 'Business Transfer'). To ensure our readiness to carry on offering EAB banking services in the EU beyond the post-Brexit transition period, EAB's Board of Directors has formally approved plans to proceed with the Business Transfer on 31 March 2020. After that date, it is intended that the European branches of EAB plc will cease operating and the EU branch business of EAB will be carried on by EAB SA from the same addresses as currently.

Disclosures and Policy

In accordance with the requirements of the CRR, the capital and liquidity 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 capital and liquidity 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 capital and liquidity disclosures are prepared by management, and reviewed and approved by the Board of Directors of EAB ("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.

Overview

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

The Risk Management Framework document sets out the high level arrangements for risk management, control, oversight and assurance at EAB. 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 stakeholders such as 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 EAB Risk Management ("ERM") Framework applies to the whole of EAB including EAB's branch network.

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

Risk Principles

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

Principle 1: Risk management and control accountability rests with each department

Departments are responsible for the continuous and active management and control of their own risks (in line with the Board approved risk appetite and strategy) to ensure that risk and return are balanced.

They are accountable not only for the risks such as credit and market actively taken in order to generate returns, but also for any consequential operational and other risks arising from their businesses, functions and processes.

Principle 2: Independent and effective risk oversight and assurance

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

Risk oversight ensures that the tools, techniques and approaches utilised in fulfilling its mandate are robust, comprehensive, proportionate, and balance the short and long-term interests of EAB.

Risk assurance as provided by Internal Audit ensures that risk management, control and oversight are effective - provided through risk based auditing, timely objective reporting, action tracking and disclosure.

Principle 3: Risk disclosure

The risk oversight process is underpinned by comprehensive, proportionate, transparent and objective disclosure of risk exposures to senior management, the Board, oversight committees, regulators, Arab Bank Group and other stakeholders.

Principle 4: Capital, liquidity, earnings and reputation protection

Capital, liquidity and earnings are protected by the effective management, control and oversight of the risk exposures across all material risk types and businesses.

External perception of EAB's reputation/ brand is protected through the proactive management, control and oversight of risks incurred in the course of our business, including the avoidance of concentrated exposures of all kinds and limiting potential stress losses.

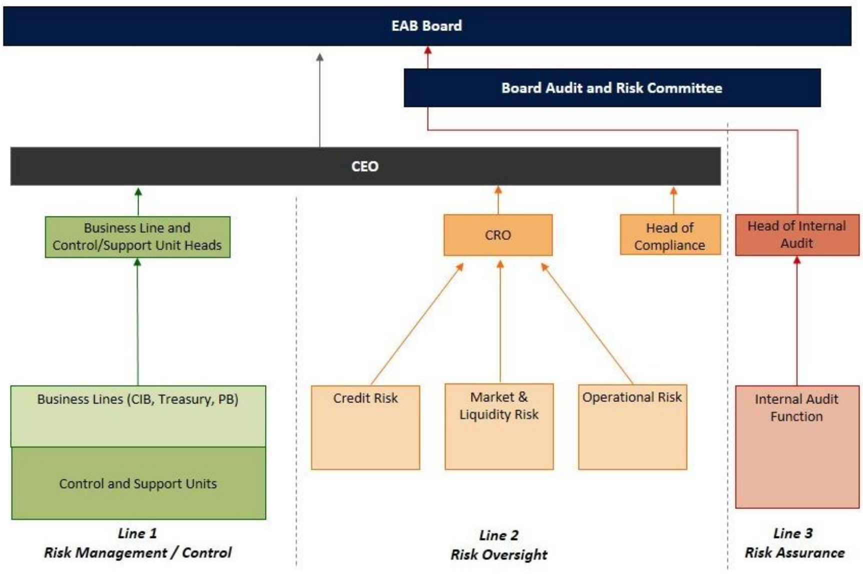
Principle 5: Ethics, culture and embedding

A strong ethical and risk culture is maintained so that risk awareness is embedded into all EAB activities. The Board takes the lead in embedding this risk culture.

Risk Governance - overview

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

- Line One has the responsibility for risk management - comprising of areas where risk taking activities occur and the functions that enable or support these activities. Line One in EAB includes the Strategic Business Units (Corporate and Institutional Banking, Private Banking and Treasury) and Control/ Support units (including Credit, Legal, Finance, Operations, Human Resources and IT).
- Line Two is responsible for risk oversight - providing independent oversight and challenge of risk and compliance issues across EAB. As such, Risk and Compliance are located within Line Two.
- Line Three is responsible for risk assurance - Internal Audit acts as the risk assurance function and provides confirmation that both the respective Line One risk management/ control and Line Two risk oversight activities are operating effectively and in accordance with the stipulated risk governance arrangements.



Risk Governance – roles and responsibilities

Within EAB's "Three Lines of Defence Model" of Risk Management, each line has a distinct but interrelated role to play to ensure that EAB as a whole, manages risk. Each line has a number of responsibilities which are laid out below.

Heads of department are responsible for ensuring that policies and job descriptions are consistent with the responsibilities

LINE ONE – BUSINESS AND CONTROL/SUPPORT UNITS

Line One has ownership, responsibility and accountability for assessing, controlling and mitigating their risks.

- Line One complies with all aspects of the ERM Framework.
- Complies with the requirements of the Internal Capital Adequacy Assessment Process ("ICAAP"), the Internal Liquidity Assessment Process ("ILAAP") and all risk policies.
- Complies with all regulatory requirements.
- Ensures that methodologies, systems, procedures, processes and controls are in place for all material risks, and that they are up-to-date, appropriate, robust and effective.
- Documents risks and controls using Risk Control Self-Assessment ("RCSA"), and ensures that RCSA is accurate and up-to-date.
- Within the business planning cycle, integrates risk, capital and liquidity tools and concepts.
- Monitors all high-level and detailed risk reporting.
- Conducts business and operates within EAB's Risk Appetite framework and risk limits, and in line with approved strategy.
- Performs remedial actions as a result of breaches, exceptions, events, variances, anomalies and errors.
- Ensures that internal and external audit, regulatory and other reports and findings are actioned.
- Manages all Disaster Recovery, Business Continuity and Information Security risks.
- Is proactive in the monitoring, measurement and assessment of all risks.
- Manages and resolves operational issues, including resourcing.
- Meets the requirements of the New Business process in the approval and implementation of new products.
- Owns major projects and change management programmes.
- Pro-actively engages and co-operates with Line Two and Line Three, and reports risk events, issues and any other matters on a timely basis.
- Proposes improvements to, and supports the development of, risk management tools.
- Provides input into the updating and maintenance of ICAAP and ILAAP, and all risk policies.
- Owning and using models.

The Control and Support units are independent from the Strategic Business Units and therefore provide a defence mechanism within Line One.

LINE TWO

Line Two is responsible for risk oversight

The following responsibilities have been specified for Risk, though may also apply to Compliance, which is subject to its own governance documents.

Oversight and Assurance

- Line Two enforces EAB's compliance with all aspects of the ERM Framework.
- Oversees the methodologies, systems, procedures, processes and controls that Line One has in place for all material risks, and gives assurance that they are up-to-date, appropriate, robust and effective.
- Controls the EAB's Risk Appetite framework, ensures that risk limits are aligned to Risk Appetite, measures and monitors EAB's Risk Appetite to ensure that thresholds and limits are complied with, and ensures actions are identified and completed for any exceptions to appetite.
- Identifies (from sources including management information, risk event and issue reporting, the RCSA process, and Stress Testing and Scenario Analysis) and reviews breaches, exceptions, events, variances, anomalies and errors, analyses the results, ensures that remedial actions are undertaken, and escalates where appropriate.
- Ensures that Line One documents risks and controls using RCSA, and supports Line One in ensuring that RCSA is accurate and up-to-date.
- Through RCSA and related key controls testing ensures that processes and controls are in place, up-to-date, robust and effective.
- Ensures the effectiveness of the Executive Risk & Compliance Committee and Operational Risk Committee process.
- Oversees the control of Disaster Recovery, Business Continuity and Information Security risks.
- Validating and monitoring the use of models.

Challenge

- Ensures that business is carried out, at both a portfolio and transactional level, in line with approved policy.
- Challenges any aspects of policy, limits, processes and controls.
- Probes and tests for concentrations of risk, key / emerging trends, variances and anomalies, challenges the business, and ensures that appropriate mitigation is taken.
- Develops early warning tools and identifies emerging regulatory requirements.
- Ensures that Line One has appropriate monitoring tools for the measurement and assessment of risk.
- Challenges any and all aspects of risk management, proposes improvements, and supports the development of risk management tools.
- Through the membership of committees, ensures that risk considerations are always taken into account.
- Performs reviews in any or all areas where risk exists.
- Drives the constant improvement and embedding of risk culture and awareness, ethical behaviour, and good practice.
- Challenges Line One regarding the resolution of operational issues.

- Develops the tools for Stress Testing and Scenario Analysis (including Disaster Recovery), analyses the results, communicates to Board and Line One, and identifies required actions.

Coordination

- Manages all aspects of the ERM Framework, including design, implementation and maintenance.
- Co-ordinates the preparation, updating and maintenance of the ICAAP, ILAAP and risk policies. Drives the embedding of these into the business.
- Co-ordinates the preparation, updating and maintenance of EAB's Recovery & Resolution Plans.
- Within the business planning cycle, ensures the integration of risk, capital and liquidity tools and concepts.
- Develops risk metrics, analytics and reporting capabilities. Prepares high-level risk reporting, such as dashboards.
- Oversees the New Business process, and supports Line One in the approval and implementation of new products.
- Contributes to major projects and change management programmes that impact on risk.
- Monitors developments in the market place relating to individuals risks, and to the evolution of risk management concepts, and ensures that lessons are learned from these.

LINE THREE

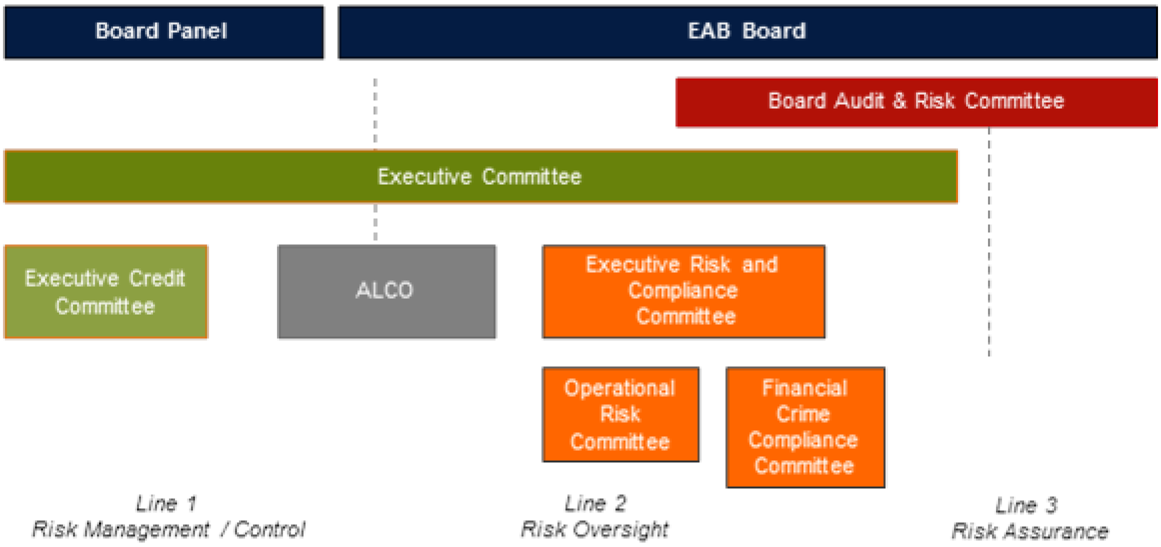
Line Three is responsible for risk assurance

- Internal Audit provides independent and objective assurance to the Board, Board Audit & Risk Committee ("BARC") and Executive Management through completion of the risk-based Annual Internal Audit Plan.
- Internal Audit acts as the risk assurance function and provides confirmation that risk management, control and oversight activities are operating effectively and in accordance with the stipulated risk governance arrangements.
- Internal Audit's objectives are set out in the Internal Audit Charter and are to support and contribute to EAB's success by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control, oversight and governance processes.
- The scope of its work includes all business operations, ventures, systems, projects, products, special activities and functional units in all locations as well as higher level controls exercised by the Board and by Executive Management.
- Completes special investigations on behalf of the BARC and/or Executive Management.
- Monitors the completion of management's responses to audit actions and advises the status of audit actions to the BARC on a quarterly basis.

Risk Committees

The above classification between the lines of defence is also applicable to risk oversight committees. All of the key EAB Executive committees have their roles clearly defined in their terms of reference as to when they are operating in a Line One (Risk Management/Control) and/or when they are operating in a Line Two (Risk Oversight) capacity.

The committees that have a key role in relation to risk are as follows:



EAB Board

The Board has overall accountability for risk governance and delegates responsibility for risk management and control to the Chief Executive Officer ("CEO") and for oversight of independent risk assurance to the BARC. The Board contributes to EAB's stress tests as part of the Stress Testing and Scenario Analysis setting and review process and receives appropriate reports setting out Key Risk Indicators to allow them to make informed decisions and set the appropriate risk policy and risk appetite for EAB. The Board also authorises appropriate management actions for crisis scenarios and approves the firm's strategies, policies, processes and systems relating to the management of risk.

The Board ensures that EAB operates within an established framework of effective systems of internal control, risk management and compliance, in accordance with FCA / PRA requirements, and ensures that business is conducted in an efficient and effective manner, with a culture and behaviour which encompasses a conservative approach to business including prudent strategy with strong credit risk management and high capital adequacy in order to promote the long term success of EAB. The Board receives a Board pack covering the full spectrum of business activities ahead of every Board meeting.

Without limitation, the Board should ensure that all its members have knowledge of key elements of the ERM Framework document from time to time in place, to include the ERM Framework principles, key objectives, implications and methodologies: the CEO is charged with the task of developing an effective risk management (including governance) framework and nominating for the Board approval a CRO to develop and manage this.

Board Audit & Risk Committee (BARC)

This committee assists the Board in ensuring the ERM Framework is implemented and properly maintained. Membership comprises non-executive directors.

Reviews and approves the framework of the risk management functions, to ensure that the risks to which the business is exposed have been appropriately identified and managed.

Reviews and recommends the following Risk-related documents to the Board for approval:

- EAB Internal Capital Adequacy Assessment Process (ICAAP)
- EAB Internal Liquidity Adequacy Assessment Process (ILAAP)
- EAB Stress Testing and Scenario Analysis Policy
- EAB ERM Framework
- EAB Risk Map
- EAB Risk Appetite Statements and Measures including the Overarching Risk Appetite Summary
- Market Risk Policy
- Review of EAB's Recovery and Resolution Plan including Contingency Funding Plan
- Business Continuity Policy and Framework
- Review of Effectiveness of EAB's Systems of Material Internal Controls
- Operational Risk Policy
- and any other Risk Policies recommended by the CRO

Board Panel for Credit Sanctioning

Responsible for approving credit recommendations and making other credit decisions in line with its delegated lending authority (being amounts in excess of Executive Credit Committee ("ECC") limits but which do not require full Board approval).

Executive Committee ("EXCO")

This is the principal executive body of EAB to manage the business, chaired by the CEO. The EXCO represents the principal forum for conducting the business of EAB and takes day-to-day responsibility for the efficient running of the business. In addition, the EXCO is responsible for the implementation of Board approved strategies and plans. It is responsible for ensuring the performance of the business in accordance with Board approved Budget and plans

Executive Risk and Compliance Committee ("ERCC")

Responsible for the control oversight of all the risks faced by EAB and advises the CEO, the Board, BARC and EXCO on all risk management matters such as risk appetite statement, strategy, policies and limits.

The ERCC has been established under the authority of the CEO and EXCO to:

- Oversee all the risks faced by EAB and to advise the CEO and, in turn, the BARC on all risk management matters;

- Review EAB's risk exposures (including credit risk, market risk, capital and liquidity risks, operational risk, regulatory compliance and financial crime) in relation to the Board's risk appetite and EAB's financial resources; and
- Foster a culture within EAB that emphasises and demonstrates the benefits of a risk-based approach to internal control and management; ensuring consistent adequate communication to staff.

The ERCC's main objectives are to ensure risks are identified and assessed, there is appropriate risk mitigation in place, and that EAB's control environment is commensurate to its needs, based on the strategy adopted by the Board and Executive.

Executive Credit Committee ("ECC")

The ECC is a credit sanctioning committee that is responsible for approving credit recommendations in line with delegated lending authorities within the Credit Policy Manual ("CPM").

The ECC is responsible for approving credit recommendations and making other credit decisions in line with its delegated lending authority, including decisions on individual credits, reviewing and recommending credit and Large Exposures to the Board Panel and recommending other concentration limits for the Board's approval.

Assets & Liabilities Committee ("ALCO")

Oversees the execution and management of the balance sheet, capital management, liquidity and market risk. Oversees the management by the Head of Treasury of asset, liability and capital related risks faced by EAB, within delegated limits, encompassing:

- Asset and liability management, including the management of funding and liquidity as well as Interest rate risk in the banking book;
- Capital treatment, management and allocation;
- Transfer pricing;
- Adherence to the Board's risk appetite in terms of capital, liquidity, market, interest rate and FX risk across the firm, including investment portfolios; and
- Trading activities in capital markets, foreign exchange and interest rate derivatives.

This should take into account the interest rate risk appetite, policies and objectives established by the Board and the ERCC, the limits and authorities delegated to ALCO and Head of Treasury by the CEO along with all financial and regulatory compliance requirements and associated thresholds.

Operational Risk Committee ("ORC")

The ORC is a sub-committee of the ERCC. Its purpose is to provide oversight over Operational Risk Management within EAB, and to ensure that actions are taken to mitigate Operational Risk ("OR") effectively and on a timely basis. ORC reviews all OR issues, ensures that agreed actions relating to OR Events are on track, and reviews the output of the RCSA process.

Financial Crime Compliance Committee ("FCCC")

The FCCC is a sub-committee of the ERCC. The aim of this committee is to achieve and evidence the formal engagement of senior management in EAB's approach for managing financial crime risk.

Material Risks

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

- Credit
- Liquidity
- Operational
- Market
- Business
- Regulatory
- Conduct
- Financial Crime
- 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 department and the level of effort and investment put into the related parts of the control framework. The Risk department 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.

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. Operational risks that could lead to significant reputational, legal, or regulatory issues, or unfavourable outcomes for our clients should be minimised and avoided where possible.
- The Bank has no tolerance for ineffective financial crime systems and controls and no appetite for any relationship with parties that do not comply with our Financial Crime policies and controls.
- EAB has no tolerance for regulatory breaches or delays in regulatory reporting.

- EAB has no appetite for unfair customer outcomes arising from any part of the client lifecycle, including product design, sales, service and strategy and culture.

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, CPM, Market Risk limits and other Risk Acceptance Criteria (RAC) documents.

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.

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 (such as the 2007/2008 financial crisis). 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 ICAAP document, ILAAP document 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 updates of the ICAAP and Recovery Plan.

3. Capital Resources

At 31 December 2019 and throughout the financial year, EAB has complied with the capital requirements that were set out by the 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.

	2019 €'000	2018 €'000
Called up share capital	569,998	569,998
Retained earnings	(276,603)	(278,471)
Accumulated other comprehensive income and other reserves	(10,044)	(9,047)
Common Equity Tier 1 ("CET1") pre regulatory adjustments	**283,351**	**282,480**
Regulatory adjustments	4,311	2,650
Common Equity Tier 1 ("CET1")	**287,662**	**285,130**
Tier 1 capital	**287,662**	**285,130**
Tier2 capital – subordinated debt *(a)	**111,329**	**109,371**
Total capital resources	**398,991**	**394,501**

**(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. Capital Adequacy and Management

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: Total Capital Guidance ("TCG") includes both Pillar 1 capital required as well as additional Pillar 2A requirements on firms with regard to their ICAAP, internal procedures and control mechanisms. The PRA expect that firms should meet Pillar 2A with at least 56% of CET1 capital.
- The Institution Specific Countercyclical Buffer ("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% of risk weighted assets is comprised of CET1 capital and is required to be maintained above the regulatory capital minimum requirement.

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 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). Finally, reverse stress testing is also performed on all elements of capital adequacy and is used to inform EAB's Recovery plan. EAB's assessment during 2019 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 TCG received from the PRA. At 31 December 2019, and throughout the year, EAB's capital in place exceeded the minimum TCG requirement.

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

	2019 €'000	2018 €'000
Credit risk – credit	130,255	123,053
Credit risk – securitisations	9,010	8,599
Credit risk - counterparty risk	342	342
Credit valuation adjustment	319	776
Market risk - debt instruments	1,372	1,264
Market risk - foreign exchange	2,474	2,342
Operational risk	6,795	6,968
Total Pillar 1 requirement	**150,566**	**143,345**

Pillar 2

In addition to the capital required in respect of Pillar 1 risks, EAB allocates additional capital in respect of other risks not addressed under the Pillar 1 minimum capital requirements in its ICAAP. 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 Defined Benefit Scheme is adequately funded both now and in the future.
- Interest rate risk in the banking 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.

5. Credit Risk

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.

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. EAB adopts RAC that outline its underwriting standards for different products and segments. Management of limits is performed daily through exceptions reports.

The CPM refers to all direct (loans or overdrafts) 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 approves the CPM and the 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 ERCC, chaired by the CEO.

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 ECA providers, financial institutions or corporates
- Listed equities (subject to haircut)

- Debt securities (subject to haircut)
- Cash (subject to haircut)
- Commercial and residential real estate

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

	2019 €'000	2018 €'000
Cash collateral	23,717	21,813
Bank guarantees	19,832	25,422
Real estate	458,510	429,877
Shares	30,275	26,618
Other collateral	62,753	70,981
	595,087	574,711

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 International Swaps and Derivatives Association ("ISDA") Master Agreements and specific netting agreements with certain Arab Bank Group entities. The CPM governs such arrangements.

Use of External Credit Rating Agencies (ECAI)

EAB uses the following external credit rating agencies (ECAI) to obtain ratings for its credit exposures:

- Moody's
- S&P
- Fitch

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.

Credit Risk Exposures

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

	2019 €'000	2018 €'000
Central governments or central banks	1,080,577	1,215,330
Institutions	449,898	617,649
Industrial and commercial	2,395,348	2,340,077
Retail	7,497	8,211
	3,933,320	**4,181,267**

The table below provides sectorial breakdown of EAB's net credit exposures (on and off balance sheet) pre and post CRM and credit conversion factors ("CCF") for 31 December 2019.

	Exposures Pre CRM and CCF €'000	Exposures Post CRM and CCF €'000
Central governments or central banks	1,080,577	1,150,271
Institutions	440,020	396,367
Corporates	1,925,815	1,048,006
Retail	7,497	4,936
Secured by mortgages on immovable property	392,953	392,953
Short term claims on institutions and corporates	9,878	9,878
Exposures in default	28,472	27,950
Other items	48,108	104,436
	3,933,320	3,134,797

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

	2019 €'000	2018 €'000
UK	393,510	291,154
Europe	1,864,641	2,241,881
MENA	1,077,949	1,024,761
North America	523,358	518,810
Asia	1,644	24,047
Other	72,218	80,614
	3,933,320	**4,181,267**

The table below provides EAB's net credit exposure (on and off balance sheet pre CRM) by Credit Quality Step ("CQS") using the external ratings sourced from the External Credit Assessment Institutions ("ECAI") for 31 December 2019.

	Central banks and Institutions €'000	Customer €'000	Amortised Cost Securities €'000	Total €'000
CQS 1	907,276	14,976	223,507	1,145,759
CQS 2	161,296	60,441	175,885	397,622
CQS 3-5	37,228	445,613	150,957	633,798
CQS 6 and unrated	6,744	1,749,397	-	1,756,141
	1,112,544	**2,270,427**	**550,349**	**3,933,320**

Please see Appendix IV for the disclosure of geographical distribution of credit exposures used in the countercyclical capital buffer (Template CCyB1).

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 2019 amounts to €14m (2018: €15m).

Counterparty Credit Risk

Treasury is permitted to enter into trades with counterparties with approved limits. These limits are reviewed annually as part of the country credit review process where the Head of Treasury is able to propose increases or reductions to existing limits and the potential inclusion of new counterparties. These are reviewed by the Credit Department and submitted to ECC for approval before submission to Group.

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. Treasury will act accordingly upon any notice received.

We do not believe that a downgrade in EAB's 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 16 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:

Interest Rate Swaps

These are over-the-counter ("OTC") agreements between two parties to exchange periodic payments of interest 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 interest rate swap trades entered into from the beginning of 2014 have been conducted through a swap clearer and placed into central clearing.

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

EAB may take limited short term positions within the prescribed market risk limits approved by the Board. Also included under the classification are any derivatives entered into for risk management purposes that do not meet the IFRS9 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 IFRS9 hedge accounting criteria.

The table below represents EAB's derivative positions by product type as at 31 December 2019.

	Notional €'000	Fair Value Asset €'000	Fair Value Liability €'000
Derivatives held for trading			
Interest rate contracts:			
Interest rate swaps	368,673	1,991	4,980
Exchange rate contracts:			
Currency forward contracts	493,858	344	7,715
Net Counterparty Credit Risk exposure due to derivative positions	862,531	2,335	12,695
Derivatives used as fair value hedges			
Interest rate swaps	588,733	1,131	5,848
Total recognised derivative assets and liabilities	**1,451,264**	**3,466**	**18,543**

6. Impairment Provisions

Policy

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.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL, unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

EAB assesses when a significant increase in credit risk has occurred based on quantitative and qualitative assessments. Exposures are considered to have resulted in a significant increase in credit risk and are moved to Stage 2 when (i) there is a drop in credit rating which is mapped to the relevant PD as defined below (Quantitative test), (ii) Accounts meet the portfolio's 'high risk' criteria and are subject to closer credit monitoring (Qualitative test), (iii) Accounts that are 30 calendar days or more past due.
The 12mECL is the portion of LTECL's that represent the ECL's that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

ECL's are calculated mainly on an individual basis with the exception of ECL's on guarantees given to third parties which are calculated on either an individual or a collective basis.

EAB has established a policy to perform regular assessment, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its financial instruments into Stage 1, Stage 2, Stage 3 and Purchased or originated credit impaired assets ('POCI'), as described below:

• Stage 1: When financial instruments are first recognised, EAB recognises an allowance based on 12mECL's. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

• Stage 2: When a financial instrument has shown a significant increase in credit risk since origination, EAB records an allowance for the LTECL's. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

• Stage 3: Financial instruments considered credit-impaired. EAB records an allowance for the LTECL's.

• POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECL's are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which EAB has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

Impairment allowances

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is as follows

€'000	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2019	2,968,471	80,805	77,840	3,127,116
New assets originated or purchased	689,887	1,867	0	691,754
Assets derecognised or repaid (excluding write offs)	(817,533)	(10,966)	(2,947)	(831,446)
Adjustments during the period	-	-	660	660
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(87,626)	87,626	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	52,430	1,158	1,319	54,907
Amounts written off	5,058	-	133	5,191
At 31 December 2019	2,810,686	160,489	77,005	3,048,181

€'000	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
ECL allowance as at 1 January 2019	7,617	1,663	43,379	58,659
Charged to income relating to new facilities	1,722	3	-	1,725
Net charge to income (increase/decrease to staging)	(1,016)	2,253	(886)	351
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(175)	175	-	-
Transfers to Stage 3	-	-	-	-
Adjustments during the period	-	-	(678)	(678)
Recoveries	-	-	-	-
Foreign exchange adjustments	113	30	869	1,012
Amounts written off	-	-	-	-
Assets derecognised or repaid (excluding write offs)	(527)	-	-	(527)
At 31 December 2019	7,681	4,121	49,240	61,042

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 ECC. 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 or rescheduling agreement has been approved and signed and the counterparty is current on all its obligations under the revised agreement.

EAB's financial assets by external ratings (excluding derivatives) as at 31 December 2019:

	31 December 2019					
	Cash, balances with central banks and due from banks	Loans and advances to customers	Fair value through profit or loss	Financial assets at amortised cost	Guarantees, letters of credit and unused credit facilities	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Neither Past due nor impaired						
Stage 1						
AAA to AA-	863,929	-	214,268	224,689	13,273	1,316,159
A+ to A-	110,009	-	-	177,481	64,769	352,259
BBB+ to B-	14,058	106,540	5,606	152,215	334,369	612,788
Below B	-	24,328	8,261	-	-	32,589
Unrated	6,112	942,510	-	-	631,016	1,579,638
	994,108	1,073,378	228,135	554,385	1,043,427	3,893,433
Stage 2						
AAA to AA-	31,803	-	-	-	-	31,803
A+ to A-	10	-	-	-	-	10
BBB+ to B-	-	-	-	-	27,564	27,564
Below B	-	-	-	-	3,191	3,191
Unrated	-	75,835	-	-	22,087	97,922
	31,813	75,835	-	-	52,842	160,490
Past due but not impaired	-	-	-	-	-	-
Individually impaired						
Stage 3						
AAA to AA-	-	-	-	-	-	-
A+ to A-	-	-	-	-	-	-
BBB+ to B-	-	-	-	-	-	-
Below B	-	-	-	-	7,570	7,570
Unrated	-	68,600	-	-	835	69,435
	-	68,600	-	-	8,405	77,005
Gross	1,025,921	1,217,813	228,135	554,385	1,104,674	4,130,928
ECL's						
Stage 1	174	5,153	-	1,305	1,049	7,681
Stage 2	56	3,948	-	-	117	4,121
Stage 3	-	41,492	-	-	7,749	49,241
	230	50,593	-	1,305	8,915	61,043
Net	1,025,691	1,167,220	228,135	553,080	1,095,759	4,069,885

EAB's financial assets by external ratings (excluding derivatives) as at 31 December 2018:

	31 December 2018					
	Cash, balances with central banks and due from banks	Loans and advances to customers	Fair value through profit or loss	Financial assets at amortised cost	Guarantees, letters of credit and unused credit facilities	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Neither Past due nor impaired						
Stage 1						
AAA to AA-	1,056,958	-	247,663	222,116	23,543	1,550,280
A+ to A-	200,526	27,416	-	171,001	81,584	480,527
BBB+ to B-	31,610	59,841	6,291	131,459	355,851	585,052
Below B	-	-	7,796	-	-	7,796
Unrated	21,096	894,457	-	-	699,239	1,614,792
	1,310,190	981,714	261,750	524,576	1,160,217	4,238,447
Stage 2						
AAA to AA-	-	-	-	-	-	-
A+ to A-	-	-	-	-	-	-
BBB+ to B-	-	-	-	8,708	-	8,708
Below B	-	-	-	-	-	-
Unrated	-	72,097	-	-	-	72,097
	-	72,097	-	8,708	-	80,805
Past due but not impaired	-	-	-	-	-	-
Individually impaired						
Stage 3						
AAA to AA-	-	-	-	-	-	-
A+ to A-	-	-	-	-	-	-
BBB+ to B-	-	-	-	-	-	-
Below B	-	-	-	-	-	-
Unrated	7,437	70,228	-	-	175	77,840
	7,437	70,228	-	-	175	77,840
Gross	1,317,627	1,124,039	261,750	533,284	1,160,392	4,397,092
ECL's						
Stage 1	119	4,440	-	926	2,132	7,617
Stage 2	-	1,661	-	2	-	1,663
Stage 3	7,437	41,942	-	-	-	49,379
	7,556	48,043	-	928	2,132	58,659
Net	1,310,071	1,075,996	261,750	532,356	1,158,260	4,338,433

EAB's Stage 3 impairment allowances by the largest industry exposures are provided below:

	2019 €'000	2018 €'000
Commercial real estate	9,928	9,753
Manufacturing and trading	30,412	31,560

49% of the provisions emanate from Europe (2018: 50%).

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 market 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	2019 Impact on Profit/(Loss) €'000	2018 Impact on Profit/(Loss) €'000
100bps increase in interest rate	996	1603
100bps decrease in interest rate	(945)	(3,362)
25bps stepped increase to 100bps over 2 months	953	1,574
25bps stepped decrease to 100bps over 2 months	(945)	(3,362)

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

Approach to 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 its 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 ILAAP (Internal Liquidity Adequacy Assessment Process) 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 Liquidity Coverage Ratio ("LCR") is determined in accordance with the PRA and EU CRR rules, and EAB's assessment during 2019 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.

Liquidity risk management (EU LIQA)

Liquidity management strategy

EAB seeks to ensure that it has at all times sufficient liquidity resources to meet its payment obligations in support of its business strategy even under severe stress. This means ensuring that it holds levels and types of liquid assets that are adequate to meet anticipated levels of cash outflows even under severely stressed conditions, where "liquid" includes High Quality Liquid Assets ("HQLA") as defined in the regulations as well as those assets that EAB regards as highly likely to provide adequate liquidity under stress (e.g. bonds eligible for use as collateral by central banks).

EAB achieves the above objective by:

- Ensuring that it has sufficiently diverse funding source types,
- Managing the maturity profile of its liability base,
- Managing its liquid assets to ensure that types and levels are adequate to meet potential outflows.

Liquidity management process

Ensuring diverse funding sources

EAB seeks to diversify its funding sources by offering deposits to several different depositor types:

- Retail customers serviced by the Private Banking ("PB") department,
- Corporate customers serviced by the Corporate & Institutional Banking ("CIB") department,
- Financial institutions & sovereigns serviced by the Treasury department,
- Deposits from Arab Bank group, EAB's parent (approximately 14% of deposit base) serviced by Treasury.

In addition, EAB receives funding in the form of its capital base as follows:

- Equity share capital (approximately 9% of balance sheet, 100% held by Arab Bank group),
- Subordinated debt (held by Arab Bank group and classified as Tier 2 capital approximately 4% of balance sheet).

Managing the maturity profile

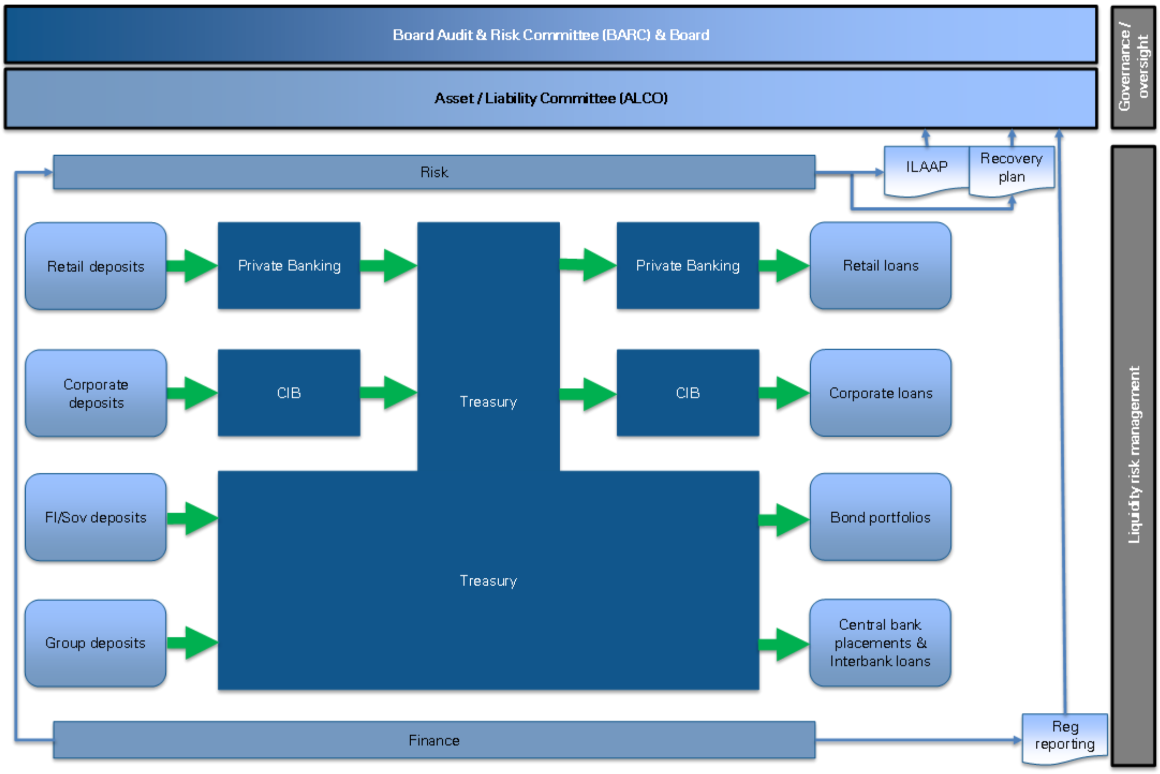
EAB generally seeks to "term out" its deposits (where possible and if desired) by agreement with depositors and via the rates applied to fixed deposit maturity dates. Again, where possible, it seeks agreement with depositors for dividing deposit amounts into "strips" of different maturities with fixed term rollovers and varies maturity dates offered to customers in order to avoid maturity date concentrations or "cliff edges". EAB employs a funds transfer pricing policy to attribute costs and revenues related liquidity to business units and, if necessary, prioritise certain categories of business activity.
The Treasury department manages any residual structural funding positions generated by the Bank's business model via transactions with the market.

Managing liquid assets

EAB has instituted rulebooks that govern the management of its bond portfolios. These rulebooks specify the types and characteristics that can be purchased for each portfolio. The rules seek to ensure that a sufficiently large proportion of EAB's total bond holdings will be able to provide liquidity even under stressed conditions. Some of the characteristics that are specified in the rules include: country of issue, credit rating and type of issuer (e.g. sovereign, financial institution, corporate).The Treasury department manages the bond portfolios.

In addition, EAB is a member of the Sterling Monetary Framework and has access to the European Central Bank ("ECB") and places surplus funds overnight at the Bank of England and the ECB. The Treasury department manages these placements.

Liquidity management process



Committees (Board, Board Audit & Risk Committee and ALCO)

Please see the section on Risk Committees.

Treasury

The Treasury department is responsible for day-to-day management of the liquidity risks of EAB. Specifically, the department co-ordinates diversification of funding sources and manages the maturity profile and liquid assets of EAB.

Private Banking ("PB") and Corporate & Institutional Banking ("CIB")

PB and CIB are customer-facing departments that both take deposits from customers and lend money to customers. These departments are responsible for notifying Treasury of liquidity demands (i.e. loan pipeline). These departments pay or receive the relevant transfer pricing margins through the Treasury Department in accordance with the Funds Transfer Pricing Policy.

Finance
The Finance department is responsible for measuring, monitoring and reporting of liquidity risks as well as reporting of breaches identified and monitoring execution of remediation actions. The department is also charged with monitoring of regulatory requirements and undertaking associated liquidity regulatory reporting ensuring compliance with the requirements.

Risk
The Risk department is responsible for overseeing liquidity risk arrangements (including risk appetite, policies, reporting etc), challenging the liquidity risk management decisions made where necessary and co-ordinating the preparation, updating and maintaining of the ILAAP.

Approval of adequacy of liquidity risk management and liquidity risk statement

The Board has approved the following statement in respect of liquidity risk appetite which underpins EAB's detailed liquidity risk appetite:

EAB closely manages and controls all liquidity and funding risks in order to strongly protect our depositors.

Broadly speaking, EAB defines its liquidity objective as the ability to ensure that EAB will always be able to maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, on acceptable terms. This statement has been translated into the liquidity risk appetite limits.
The limits have been generated with consideration of EAB's internal stress testing of liquidity, PRA-prescribed stress described in the LCR and other regulatory and industry-wide Key Risk Indicators. EAB ensures that, at all times, it maintains liquidity in excess of the aggregate of:

- Pillar 1 regulatory liquidity requirements; and
- Pillar 2 regulatory liquidity requirements (including fixed add-ons and regulatory buffers);

Qualitative information on the LCR (EU LIQ1)

- **Concentration of funding and liquidity sources**

"EAB's funding base is stable with EAB maintaining access to a diverse range of funding sources including deposits from retail and corporate customers, deposits covered by the Protection Fund of the Association of German Banks, intragroup and wholesale deposits".

- **Derivative exposures and potential collateral calls**

Derivative transactions such as Interest Rate Swaps and FX derivatives (FX Swaps & FX Forwards) are entered into by the Treasury department. In the case of Interest Rate Swaps historically EAB entered into OTC bilateral derivative transactions which were covered by Credit Support Annex ("CSA") agreements. Since 2014 all new Interest Rate Swap transactions are being centrally cleared with initial margin posted against the portfolio. EAB also either pays or receives variation margin against the portfolio on a daily basis. During 2018 EAB signed updated ISDA Master Agreement with all its bilateral liquidity provider for FX derivatives in order to cover variation margin requirements on uncleared transactions.

- **Currency mismatch**

EAB has recognised the potential risk of a currency mismatch. The currency mismatch is managed through appropriate tools and set of internal limits. These metrics forming part of the daily and monthly reports to key Stakeholders.

- **Degree of centralisation of liquidity management and interaction between the group's units**

All liquidity management is centralised through EAB Treasury, based in London. It should be noted that EAB accesses the ECB via its Frankfurt branch which interacts with the Bundesbank.

- **Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile**

Most of EAB's Liquid Assets are held in the form of Central bank reserves and Level 1 Securities.

The LCR disclosure template is provided in appendix (V) and Liquidity risk limits are provided in appendix (VI).

9. Operational Risk

EAB actively manages Operational Risk ("OR") to appetite levels set out by its own board and in accordance with regulation and guidance from the FCA, the PRA, or other relevant regulatory and supervisory bodies as appropriate.

The objective is to maintain strong OR cultural awareness underpinned by high standards of OR management which leverages the EAB ERM Framework. EAB has an OR Policy supported by a structure of effective OR framework governance including functional and geographic OR Liaisons and an OR Committee. EAB has adopted key tools, systems, controls, and measures for identifying, assessing, measuring, reporting, controlling and managing operational risks with the continual aim to proactively mitigate EAB OR risks to appropriate acceptable levels defined by EAB or regulation.

Independent review and oversight of OR is provided by the Head of OR who reports to the CRO.

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

10. 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).

As at 31 December 2019 EAB has a leverage ratio of 8.56% (2018: 7.91%). Please see Appendix VII for the leverage ratio disclosures (Templates LR1 and LR2).

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 2019, EAB's balance sheet was composed of encumbered assets of €101m (2018: €103m). Further details are provided in Appendix VIII.

12. Remuneration

Decision making process

EAB has an established Nomination & Remuneration Committee ("N&RC") 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 N&RC develops and proposes to the Board for approval, EAB's Remuneration Policy on terms compliant with the regulators' (EBA, FCA & PRA) expectations on remuneration; and such other new, or amendments to the existing, compensation plans as the N&RC 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 N&RC reviews the 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"),and is responsible for ensuring the policy is adequate and sufficient to:

- attract and retain qualified individuals with appropriate experience, knowledge and skills to deliver the Bank's strategy and plans;
- promote sound risk management; and
- encourage behaviour which is consistent with the Bank's culture, values and principles of good governance.

Any proposed amendment to the Remuneration Policy is submitted by the N&RC to the Board for review and approval.

The N&RC reviews EAB's Remuneration Policy Statement annually, in order to record EAB's self-assessment of compliance with the regulators' expectations on remuneration.

The N&RC is informed of and advised on any proposed major changes in employee benefit structures throughout EAB. The N&RC meets twice a year (or as and when required) and its primary responsibilities are to:

- Consider and recommend candidates for appointment to the Board and Board Committees;

- Appoint the EXCO;
- Regularly review succession planning;
- Set the remuneration packages of the EXCO members and Material Risk Takers ("MRT's") 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 Regulators' expectations on remuneration.

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 N&RC and it is set formally by that N&RC, based on the information received from the relevant business units, control functions and support functions. Using all of the information available, the N&RC 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 MRT 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 the N&RC, including where there are concerns about compliance with EAB's Compliance and Risk policies.

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 solely based on the financial (sales) performance of any individual.

Individual objectives are set for each staff member, including MRT's, 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 N&RC 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.

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.

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 Regulators' 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 N&RC will consider the input from the Risk Management functions and make any appropriate decisions regarding the application of any "malus" or "clawback" of MRT's variable remuneration.

The remuneration policy will not adversely affect EAB's Capital Adequacy Ratio.
As of 31 December 2019, EAB had 23 employees identified as MRT's, excluding the Chairman and the non-executive directors, whose professional activities were considered to have a material impact on the firm's risk profile.

The table below analyses the remuneration of the MRT's:

	2019 Aggregate Remuneration
Strategic business units	€1,947m
Support, risk and control functions	€3,513m
Total	€5,460m

13. Appendices

a. Appendix I: Capital Instruments main features

Capital Instruments main features template			
Issuer	Europe Arab Bank	Europe Arab Bank	Europe Arab Bank
Unique identifier	n/a	GB00B5WCP47	n/a
Governing laws of the instrument	English	English	English
Regulatory Treatment			
Transitional CRR rules	Tier1	Tier2	Tier1
Post transitional rules	Tier1	Tier2	Tier1
Eligible at Solo/ (sub-) consolidated/ Solo & (sub-) consolidated	Solo	Solo	Solo
Instrument type	Share capital	Subordinated debt	Deferred Shares
Amount recognised in regulatory capital	€ 569,925,540	€ 111,328,821	€ 72,000
Nominal amount of instrument	€ 569,925,540	US$125,000,000	£50,000
Issue px	100	100	100
Redemption px	100	100	100
Accounting classification	Equity	Liability - amortised cost	Equity
Date of issue		12/07/2011	
Perpetual or dated	Perpetual	Perpetual	Perpetual
Original Maturity	n/a	n/a	n/a
Issuer call subject to prior supervisory approval	No	No	No
Optional call date, contingent call dates and redemption amount	n/a	n/a	n/a
Subsequent call dates, if applicable	n/a	n/a	n/a
Coupon/ Dividends			
Fixed or floating dividend/ coupon	Floating	Floating	Floating
Coupon rate and any related index	n/a	Libor + 0.50% per annum	n/a
Existance of a dividend stopper	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Partially discretionary	Fully discretionary
Existence of step up or other incentive to redeem	No	No	No
Non cumulative or cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible or non -convertible	Non-convertible	Non-convertible	Non-convertible
Write-down features	None	None	None
Position in subordinated hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated debt	Unsubordinated creditors	Subordinated debt
Non-compliant transitioned features	No	No	No
If yes, specify non-compliant features	n/a	n/a	n/a

b. Appendix II: Reconciliation between audited financial statements and regulatory own funds as at 31st December 2019

	Audited Financial Statements €000's	Consolidation Adjustments €000's	Regulatory Own Funds €000's
Called up share capital	569,998	-	569,998
Retained earnings	(286,809)	162	(286,647)
Total Shareholders Equity	283,189	162	283,351
Regulatory Adjustments			4,311
Tier 1 capital			287,662
Subordinated notes	111,329	-	111,329
Tier2 capital			111,329
Total capital resources			398,991

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

c. Appendix III: Transitional Own Funds disclosure as at 31st December 2019

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	569,998	26 (1), 27, 28, 29, EBA list 26 (3)	-
of which: Instrument Type 1	569,998	EBA list 26 (3)	-
Retained Earnings	(276,603)	26 (1) c	-
Accumulated other comprehensive income (and other reserves)	(10,044)	26 (1)	-
Minority interest (amounts allowed in consolidated CET1)	0	84, 479, 480	-
Common Equity Tier1 (CET1) capital before regulatory adjustments	283,351		
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)	(103)		
Deferred tax asset that rely on future profitability exclduing those arising from temporary differences	-	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)	-
Value adjustments due to the requirements for prudent valuation	(250)	105	-
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-		-
Of which: Unrealised losses on debt securities	-	467	-
Of which: Unrealised gains on debt securities	-	468	-
Adjustments due to IFRS9 transitional adjustments	4,665	469-472, 478, 481	
Total regulatory adjustments to Common Equity tier 1 (CET1)	4,311		
Common Equity Tier1 (CET1) capital	287,662		
Additional Tier 1 (AT1) capital	-		-
Tier 1 capital (T1 = CET1 + AT1)	287,662		
Tier 2 (T2) capital: Instruments and provisions			
Capital instruments and the share premium accounts	111,329		-
Total regulatory adjustments to Tier 2 (T2) capital	-		-
Tier 2 (T2) Capital	111,329		
Total capital (TC = T1 + T2)	398,991		
Total Risk Weighted Assets	1,882,080		
Capital Ratios and Buffers			
Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.3%		
Tier 1 (as a percentage of total risk exposure amount)	15.3%		
Total capital (as a percentage of total risk exposure amount)	21.2%		

d. Appendix IV: Template CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Geographical breakdown	Countercyclical capital buffer rate	Exposure values and /or risk-weighted assets used in the computation of the countercyclical capital buffer		Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
		Exposure values (€000's)	Risk-weighted assets (€000's)		
United Kingdom	1.00%	412,318	220,700		
Norway	2.50%	1,474	1,474		
Sweden	2.50%	8,653	8,653		
Hong Kong	2.00%	870	300		
Czech Republic	1.50%	-	-		
Iceland	1.75%	-	-		
USA	0.00%	32,983	32,028		
Solvakia	1.50%	-	-		
Denmark	1.00%	1,968	1,968		
Lithuania	1.00%	-	-		
Bulgaria	0.50%	-	-		
Germany	0.00%	240,478	40,950		
Belguim	0.00%				
Ireland	1.00%	-	-		
Luxembourg	0.00%				
France	0.25%	36,198	30,875		
Sub Total		734,942	336,948		
Grand Total		2,631,308	1,500,738	0.17%	3214

e. Appendix V: LCR Disclosure Template- LCR Supervisory Template

Scope of consolidation		SOLO			
Currency and units		EURO 000's			
Quarter ending on (DD Month YYY)		31 March 2019	30 June 2019	30 September 2019	31 December 2019
Number of data points used in the calculation of averages		3	3	3	3
21	Liquidity Buffer	952,494	813,418	735,522	940,242
22	Total Net Cash Outflows	446,454	379,772	345,789	537,520
23	Liquidity Coverage Ratio (%)	213%	214%	213%	175%

*LCR calculations for LCR Supervisory Template use average data for the quarter.

f. Appendix VI: Liquidity Risk Limits

Liquidity Limits		Dec-19	Limits	Purpose of limit
Regulatory limits	LCR - Consolidated CCYs (regulatory)	188%	Regulatory Pillar 1+ Pillar2 add-on >=103%	Regulatory requirement. Pillar 1 requirement set at 100% of net outflows. Pillar 2 add-on set by the PRA.
Internal limits	LCR - Consolidated CCYs (internal)	188%	Internal >=113%	Additional internal requirement beyond that of the PRA's (Pillar1 + Pillar2) regulatory LCR requirement
	Loan/Deposit Ratio	67.3%	Internal <=85%	Additional internal requirement sets a limit on the amount of lending supported by 'stable' funding sources.

*LCR calculations for liquidity risk limits use monthly data.

g. Appendix VII: Leverage ratio templates

i. Template LR1 - Summary comparison of accounting assets vs leverage ratio exposure measure (January 2014 standard)

		31 December 2019 €000's
1	Total consolidated assets per published financial statements*	3,053,053
2	Adustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustments for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for financial derivatives	9,143
5	Adjustments for securities financing transactions (ie repos and similar secured lending)	-
6	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	297,947
7	Other adjustments	1,159
8	**Leverage ratio exposure measure**	3,361,302

* EAB plc's published financial statements are prepared on a company only basis. Row 1 (above) discloses total assets on a consolidated basis, as required under the standard templates.

ii. Template LR2 - Leverage ratio common disclosure template (January 2014 standard)

Basis of Disclosure : Quarterend basis		31 December 2019 €000's	30 September 2019 €000's
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFT's), but including collateral)**	3,051,099	2,530,817
2	(Assets amounts deducted in determining Basel III Tier1 Capital)	(353)	(419)
3	**Total on-balance sheet exposures** (excluding derivatives and SFT's) (sum of rows 1 and 2)	3,050,746	2,530,398
Derivative exposure			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and /or with bilateral netting)	3,466	6,381
5	Add-on amounts for PFE associated with all derivative transactions	9,143	9,303
6	Gross-ups for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client -cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	**Total derivative exposures (sum of rows 4 to 10)**	12,609	15,684
Securities financing transactions			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions)	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	**Total securities financing transaction exposures (sum of rows 12 to 15)**	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross national amount	1,096,472	1,112,376
18	(Adjustments for conversion to credit equivalent amounts)	(798,525)	(808,693)
19	Off-balance sheet items (sum of rows 17 to 18)	297,947	303,684
Capital and total exposures			
20	Tier1 capital	287,662	283,237
21	Total exposures (sum of rows 3,11,16 and 19)	3,361,302	2,849,766
Leverage Ratio			
22	**Basel III Leverage Ratio**	8.56%	9.94%

** Row 1 (above) discloses on-balance sheet exposures on a consolidated basis.

h. Appendix VIII: 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 disclosed the asset encumbrance significance in within the section 11 of the Pillar 3 Disclosure.

Template A-Assets

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	Assets of the reporting institution	100,581		2,952,473	
020	Loans on demand	75,581		949,617	
030	Equity instruments	-	-	-	-
040	Debt securities	25,000	25,000	756,215	758,249
100	Loans and advances other than loans on demand	-		1,180,338	
120	Other assets	-		66,303	

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	16,451	21,649
020	Derivatives	16,451	21,649
040	Deposits	0	0
090	Debt securities issued	-	-
120	Other sources of encumbrance	-	78,932