

Europe Arab Bank plc - Pillar III & LCR Disclosures

31 December 2018

Table of Contents

| | | |
|-----|---|----|
| 1. | Overview..... | 3 |
| 2. | Risk Management Objectives and Policies | 4 |
| 3. | Capital Resources | 14 |
| 4. | Capital Adequacy and Management..... | 14 |
| 5. | Credit Risk..... | 16 |
| 6. | Impairment Provisions | 21 |
| 7. | IFRS 9 | 26 |
| 8. | Market Risk..... | 27 |
| 9. | Liquidity Risk..... | 28 |
| 10. | Operational Risk..... | 33 |
| 11. | Leverage Ratio | 33 |
| 12. | Asset Encumbrance | 33 |
| 13. | Remuneration..... | 34 |
| 14. | Appendices | 37 |

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 2018 with comparative figures for 31 December 2017 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 2018 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

As uncertainty around Brexit continues, EAB is developing contingency plans for the worst case scenario of a 'Hard Brexit' which could take place on 29 March 2019. This is in case Brexit negotiations fail and the UK would leave the EU with no trade agreement in place and revert to WTO rules with no financial services passporting rights into the EU.

EAB has prepared contingency plans to establish a fully licenced banking subsidiary in France that affords equivalent EU passporting rights to those currently exercised by EAB. The Bank has engaged with relevant banking regulators and is working towards obtaining the required authorisations.

EAB continues to operate business as usual aiming to minimise any impact on clients and services. EAB management are preparing to continue servicing all our clients and maintain all the European business and access under all potential outcomes.

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.

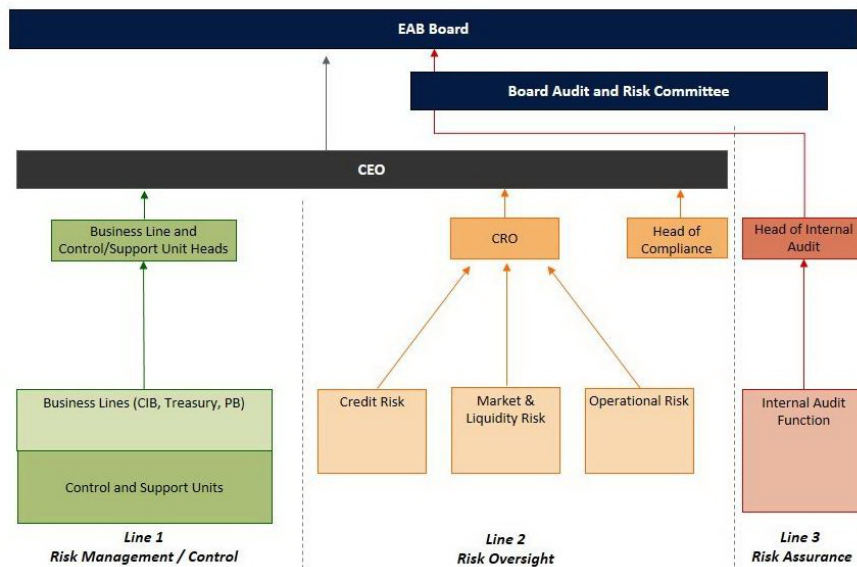
Principle 5: Ethics, culture and embedding

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 individual risks, and to the evolution of risk management concepts, and ensures that lessons are learned from these.

LINE THREE

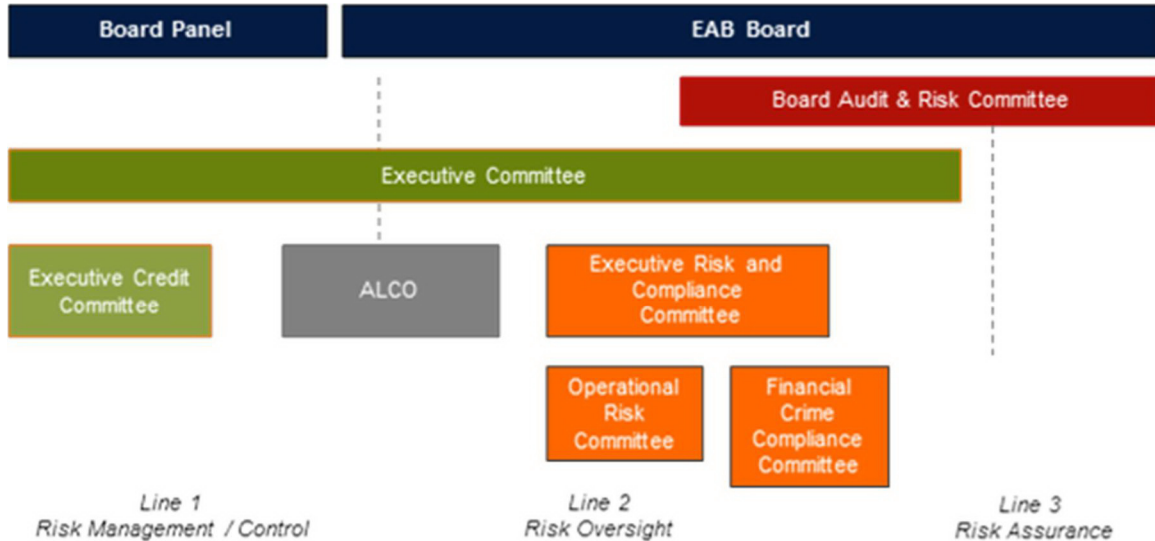
Line Three is responsible for risk assurance

- 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 and BARC 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, and regulatory compliance) 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.
- 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, CPM, Market Risk limits and other Risk Acceptance Criteria (RAAC) 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 2018 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.

| | 2018 €'000 | 2017 €'000 |
|---|----------------|----------------|
| Called up share capital | 569,998 | 569,998 |
| Retained earnings | (278,471) | (286,745) |
| Accumulated other comprehensive income and other reserves | (9,047) | (4,615) |
| Common Equity Tier 1 ("CET1") pre regulatory adjustments | 282,480 | 278,638 |
| Regulatory adjustments | 2,650 | (1,399) |
| Common Equity Tier 1 ("CET1") | 285,130 | 277,239 |
| Tier 1 capital | 285,130 | 277,239 |
| Tier2 capital – subordinated debt ^{*(a)} | 109,371 | 104,089 |
| Total capital resources | 394,501 | 381,328 |

**(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 1.875% 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 2018 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 2018, 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.

| | 2018 | 2017 |
|-----------------------------------|----------------|----------------|
| | €'000 | €'000 |
| Credit risk – credit | 123,053 | 126,915 |
| Credit risk – securitisations | 8,599 | 8,037 |
| Credit risk - counterparty risk | 342 | 372 |
| Credit valuation adjustment | 776 | 691 |
| Market risk - debt instruments | 1,264 | 1,978 |
| Market risk - foreign exchange | 2,342 | 2,020 |
| Operational risk | 6,968 | 7,245 |
| Total Pillar 1 requirement | 143,345 | 147,258 |

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 RAAC 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 RAAC.

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.

| | 2018 | 2017 |
|------------------|----------------|----------------|
| | €'000 | €'000 |
| Cash collateral | 21,813 | 20,917 |
| Bank guarantees | 25,422 | 32,291 |
| Real estate | 429,877 | 355,138 |
| Shares | 26,618 | 27,600 |
| Other collateral | 70,981 | 113,944 |
| | 574,711 | 549,890 |

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").

| | 2018 €'000 | 2017 €'000 |
|--------------------------------------|------------------|------------------|
| Central governments or central banks | 1,215,330 | 1,084,502 |
| Institutions | 617,649 | 789,881 |
| Industrial and commercial | 2,340,077 | 2,502,947 |
| Retail | 8,211 | 9,005 |
| | 4,181,267 | 4,386,335 |

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 2018.

| | Exposures Pre CRM and CCF €'000 | Exposures Post CRM and CCF €'000 |
|--|---------------------------------------|---|
| Central governments or central banks | 1,215,330 | 1,292,361 |
| Institutions | 471,095 | 416,237 |
| Corporates | 1,883,531 | 981,992 |
| Retail | 8,211 | 6,795 |
| Secured by mortgages on immovable property | 384,778 | 384,778 |
| Short term claims on institutions and corporates | 146,553 | 146,553 |
| Exposures in default | 36,621 | 34,545 |
| Other items | 35,148 | 82,084 |
| | 4,181,267 | 3,345,345 |

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

| | 2018 €'000 | 2017 €'000 |
|---------------|------------------|------------------|
| UK | 291,154 | 335,135 |
| Europe | 2,241,881 | 2,326,280 |
| MENA | 1,024,761 | 1,127,633 |
| North America | 518,810 | 472,738 |
| Asia | 24,047 | 52,205 |
| Other | 80,614 | 72,344 |
| | 4,181,267 | 4,386,335 |

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 2018.

| | Central banks and Institutions €'000 | Customer €'000 | Available for Sale Securities €'000 | Total €'000 |
|----------------------|--|-------------------|---|------------------|
| CQS 1 | 1,062,803 | 23,543 | 224,286 | 1,310,632 |
| CQS 2 | 271,284 | 61,282 | 171,301 | 503,867 |
| CQS 3-5 | 46,312 | 402,155 | 142,235 | 590,702 |
| CQS 6 and unrated | 39,763 | 1,736,303 | - | 1,776,066 |
| | 1,420,162 | 2,223,283 | 537,822 | 4,181,267 |

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 2018 amounts to €14m (2017: €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 17 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 2018.

| | Notional €'000 | Fair Value Asset €'000 | Fair Value Liability €'000 |
|---|-------------------|------------------------------|----------------------------------|
| Derivatives held for trading | | | |
| <i>Interest rate contracts:</i> | | | |
| Interest rate swaps | 403,455 | 4,373 | 3,506 |
| <i>Exchange rate contracts:</i> | | | |
| Currency forward contracts | 468,128 | 4,322 | 1,199 |
| Net Counterparty Credit Risk exposure due to derivative positions | 871,583 | 8,695 | 4,705 |
| Derivatives used as fair value hedges | | | |
| Interest rate swaps | 558,743 | 6,530 | 1,650 |
| Total recognised derivative assets and liabilities | 1,460,326 | 15,225 | 6,355 |

6. Impairment Provisions

Policy

EAB's adoption of IFRS 9, from 1st January 2018, has fundamentally changed the EAB's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, EAB has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and guarantees given to third parties, in this section all referred to as 'financial instruments'.

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.

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and provisions for loan commitments and guarantees given to third parties in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9.

| €'000 | Loan loss provision under IAS 39/IAS 37 at 31 December 2017 | Re- measurement | ECLs under IFRS 9 at 1 January 2018 |
|---|--|--------------------|--|
| Impairment allowance for Loans and advances to customers | 45,896 | 617 | 46,513 |
| Held to maturity securities per IAS 39/ financial assets at FVTPL under IFRS 9 | 15,885 | (15,885) | - |
| Held to maturity securities per IAS 39/ financial assets at amortised cost under IFRS 9 | - | 837 | 837 |
| | <u>61,781</u> | <u>(14,431)</u> | <u>47,350</u> |
| Contingent liabilities and commitments | 1,478 | 2,434 | 3,912 |
| | <u>63,259</u> | <u>(11,997)</u> | <u>51,262</u> |

Impairment allowances

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

| €'000 | Stage 1 | Stage 2 | Stage 3 | Total |
|--|-------------|------------|---------|-------------|
| | Individual | Individual | | |
| Gross carrying amount as at 1 January 2018 | 3,269,695 | 123,349 | 74,063 | 3,467,107 |
| New assets originated or purchased | 758,573 | - | 520 | 759,093 |
| Assets derecognised or repaid (excluding write offs) | (1,155,884) | (54,074) | (1,378) | (1,211,336) |
| Adjustments during the period | 1,310 | 45 | - | 1,355 |
| Transfers to Stage 1 | 44,926 | (44,926) | - | - |
| Transfers to Stage 2 | (51,555) | 51,555 | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Foreign exchange adjustments | 101,406 | 4,856 | 4,635 | 110,897 |
| Amounts written off | - | - | - | - |
| At 31 December 2018 | 2,968,471 | 80,805 | 77,840 | 3,127,116 |

| €'000 | Stage 1 | Stage 2 | Stage 3 | Total |
|--|------------|------------|---------|--------|
| | Individual | Individual | | |
| ECL allowance as at 1 January 2018 | 5,625 | 3,274 | 42,364 | 51,263 |
| Charged to income relating to new facilities | 814 | 2 | - | 816 |
| Net charge to income (increase/decrease to staging) | (355) | 208 | 5,121 | 4,974 |
| Transfers to Stage 1 | 2,237 | (2,237) | - | - |
| Transfers to Stage 2 | (259) | 259 | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Adjustments during the period | - | - | (696) | (696) |
| Recoveries | - | - | - | - |
| Foreign exchange adjustments | 163 | 157 | 2,590 | 2,910 |
| Amounts written off | - | - | - | - |
| Assets derecognised or repaid (excluding write offs) | (608) | - | - | (608) |
| At 31 December 2018 | 7,617 | 1,663 | 49,379 | 58,659 |

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 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 | 1,317,6 | 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 financial assets by external ratings (excluding derivatives) as at 31 December 2017:

| | 31 December 2017 | | | |
|--------------------------------|--|---------------------------------------|---|-----------|
| | Cash, balances with central banks and due from banks | Loans and advances to customers | Fair value through profit or loss and financial investments | Total |
| | €'000 | €'000 | €'000 | €'000 |
| Neither past due nor impaired | | | | |
| AAA to AA- | 940,701 | 61,066 | 515,889 | 1,517,656 |
| A+ to A- | 287,579 | 18,804 | 173,916 | 480,299 |
| BBB+ to B- | 59,080 | 81,346 | 119,381 | 259,807 |
| Unrated | 37,474 | 931,939 | - | 969,413 |
| | 1,324,834 | 1,093,155 | 809,186 | 3,227,175 |
| Past due but not impaired | - | - | - | - |
| Individually impaired | 7,078 | 71,390 | 23,769 | 102,237 |
| Gross | 1,331,912 | 1,164,545 | 832,955 | 3,329,412 |
| Less: allowance for impairment | (5,309) | (42,065) | (15,885) | (63,259) |
| Net | 1,326,603 | 1,122,480 | 817,070 | 3,266,153 |

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

| | 2018 | 2017 |
|---------------------------|--------|--------|
| | €'000 | €'000 |
| Commercial real estate | 9,753 | 6,343 |
| Manufacturing and trading | 31,560 | 29,462 |

50% of the provisions emanate from Europe (2017: 67%).

7. IFRS 9

IFRS 9, Financial Instruments, which replaced IAS 39, Financial Instruments: Recognition and Measurement, was applied effective from 1st January 2018. The Bank has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1st January 2018 and are disclosed in Note 2 of the financial statements.

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest' (SPPI)).

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- (i) Debt instruments at amortised cost
- (ii) Debt and equity instruments at fair value through other comprehensive income (FVOCI)
- (iii) Financial assets at fair value through profit or loss (FVTPL)

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

The Bank's classification of its financial assets and liabilities is explained in Note 1(d) of the financial statements. The quantitative impact of applying IFRS 9 as at January 2018 is disclosed in Note 2 of the financial statements.

The adoption of IFRS 9 has fundamentally changed the Bank's measurement of loan loss impairments by replacing IAS 39s incurred loss approach with a forward looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and guarantees given to third parties. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI) the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank's impairment method are disclosed in Note 1(e) of the financial statements. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 2 of the financial statements.

8. 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 | 2018 Impact on Profit/(Loss) €'000 | 2017 Impact on Profit/(Loss) €'000 |
|--|---|---|
| 100bps increase in interest rate | 1,603 | 2,586 |
| 100bps decrease in interest rate | (3,362) | (3,934) |
| 25bps stepped increase to 100bps over 2 months | 1,574 | 2,567 |
| 25bps stepped decrease to 100bps over 2 months | (3,362) | (3,934) |

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.

9. 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 2018 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 18% of deposit base) serviced by Treasury.

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

- Equity share capital (approximately 8% of balance sheet, 100% held by Arab Bank group),
- Subordinated debt (held by Arab Bank group and classified as Tier 2 capital approximately 3% 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.

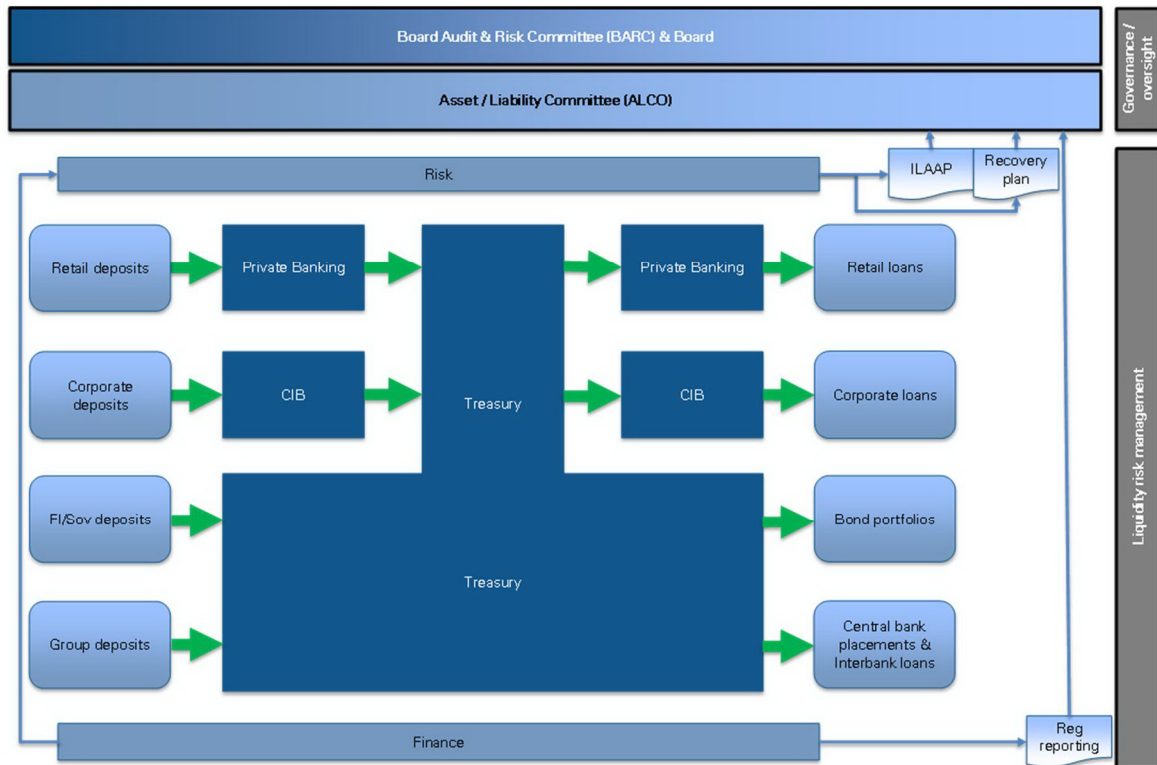
The Treasury department manages any residual structural funding positions generated by the Bank’s business model via transactions with the market.

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 enumerated in the table below. 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.

All positions were within their risk appetite limits at 31 December 2018.

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 2017 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 in the LCR**

EAB has recognised the potential risk of a currency mismatch in its LCR and has set internal limits for its material currencies. These metrics forming part of the daily report 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).

10. 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.

11. 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 2018 EAB has a leverage ratio of 7.91% (2017: 7.40%). Please see Appendix VII for the leverage ratio disclosures (Templates LR1 and LR2).

12. 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 2018, EAB's balance sheet was composed of encumbered assets of €103m (2017: €113m). Further details are provided in Appendix VIII.

13. 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.

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

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 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 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.

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 2018, EAB had 16 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:

| | Aggregate Remuneration |
|-------------------------------------|-------------------------------|
| Strategic business units | €1.539m |
| Support, risk and control functions | €3.307m |
| Total | €4.846m |

14. Appendices

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 | € 109,370,899 | € 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 |
| Existence 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 |

Appendix II: Reconciliation between audited financial statements and regulatory own funds as at 31st December 2018

| | Audited Financial Statements €000's | Consolidation Adjustments €000's | Regulatory Own Funds €000's |
|----------------------------------|--|-------------------------------------|--------------------------------|
| Called up share capital | 569,998 | - | 569,998 |
| Retained earnings | (287,707) | 189 | (287,518) |
| Total Shareholders Equity | 282,291 | 189 | 282,480 |
| Regulatory Adjustments | | | 2,650 |
| Tier 1 capital | | | 285,130 |
| Subordinated notes* | 109,371 | - | 109,371 |
| Tier2 capital | | | 109,371 |
| Total capital resources | | | 394,501 |

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 2018

| 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 | (278,471) | 26 (1) c | - |
| Accumulated other comprehensive income (and other reserves) | (9,047) | 26 (1) | - |
| Minority interest (amounts allowed in consolidated CET1) | 0 | 84, 479, 480 | - |
| Common Equity Tier1 (CET1) capital before regulatory adjustments | 282,480 | | |
| 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) | (340) | | - |
| Deferred tax asset that rely on future profitability excluding 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, | - |
| Losses for the current financial year | - | 258 | - |
| Value adjustments due to the requirements for prudent valuation | (283) | 36 (1) a, 472 (3) | - |
| Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468 | - | 105 | - |
| Of which: Unrealised losses on debt securities | - | 467 | - |
| Of which: Unrealised gains on debt securities | - | 468 | - |
| Adjustments due to IFRS9 transitional adjustments | 3,273 | 469-472, 478, 481 | - |
| Total regulatory adjustments to Common Equity tier 1 (CET1) | 2,650 | | |
| Common Equity Tier1 (CET1) capital | 285,130 | | |
| Additional Tier 1 (AT1) capital | - | | |
| Tier 1 capital (T1 = CET1 + AT1) | 285,130 | | |
| Tier 2 (T2) capital: Instruments and provisions | | | |
| Capital instruments and the share premium accounts | 109,371 | | |
| Total regulatory adjustments to Tier 2 (T2) capital | - | | |
| Tier 2 (T2) Capital | 109,371 | | |
| Total capital (TC = T1 + T2) | 394,501 | | |
| Total Risk Weighted Assets | 1,791,811 | | |
| Capital Ratios and Buffers | | | |
| Common Equity Tier 1 (as a percentage of total risk exposure amount) | 15.9% | | |
| Tier 1 (as a percentage of total risk exposure amount) | 15.9% | | |
| Total capital (as a percentage of total risk exposure amount) | 22.0% | | |

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% | 476,989 | 209,725 | | |
| Norway | 2.00% | 2,031 | 2,025 | | |
| Sweden | 2.00% | 11,288 | 11,288 | | |
| Hong Kong | 1.88% | 888 | 313 | | |
| Czech Republic | 1.00% | - | - | | |
| Iceland | 1.25% | - | - | | |
| USA | 0.00% | 35,601 | 34,500 | | |
| Slovakia | 1.25% | - | - | | |
| Denmark | 0.00% | 3,412 | 3,412 | | |
| Lithuania | 0.50% | - | - | | |
| Bulgaria | 0.00% | - | - | | |
| Ireland | 0.00% | - | - | | |
| France | 0.00% | 36,915 | 30,763 | | |
| Sub Total | | 567,124 | 292,025 | | |
| Grand Total | | 2,578,014 | 1,391,550 | 0.17% | 3051 |

Appendix V: LCR Disclosure Template- LCR Supervisory Template

| Scope of consolidation | | SOLO | | | |
|---|------------------------------|---------------|--------------|-------------------|------------------|
| Currency and units | | EURO 000's | | | |
| Quarter ending on (DD Month YYYY) | | 31 March 2018 | 30 June 2018 | 30 September 2018 | 31 December 2018 |
| Number of data points used in the calculation of averages | | 3 | 3 | 3 | 3 |
| 21 | Liquidity Buffer | 987,283 | 972,543 | 1,002,847 | 1,137,621 |
| 22 | Total Net Cash Outflows | 512,681 | 382,684 | 415,479 | 549,499 |
| 23 | Liquidity Coverage Ratio (%) | 193% | 254% | 241% | 207% |

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

Appendix VI: Liquidity Risk Limits

| Liquidity Limits | | Dec-18 | Limits | Purpose of limit |
|-------------------|--------------------------------------|--------|--|--|
| Regulatory limits | LCR - Consolidated CCYs (regulatory) | 194% | 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) | 194% | Internal >=113% | Additional internal requirement beyond that of the PRA's (Pillar1 + Pillar2) regulatory LCR requirement |
| | Loan/Deposit Ratio | 53.7% | 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.

Appendix VII: Leverage ratio templates

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

| | 31 December 2018 €000's |
|--|----------------------------|
| 1 Total consolidated assets per published financial statements* | 3,251,902 |
| 2 Adjustment 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 | 8,124 |
| 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) | 325,964 |
| 7 Other adjustments | 20,595 |
| 8 Leverage ratio exposure measure | 3,606,585 |

* 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.

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

| Basis of Disclosure : Quarterend basis | 31 December 2018 €000's | 30 September 2018 €000's |
|---|----------------------------|-----------------------------|
| On-balance sheet exposures | | |
| 1 On-balance sheet exposures (excluding derivatives and securities financing transactions (SFT's), but including collateral)** | 3,257,895 | 2,988,741 |
| 2 (Assets amounts deducted in determining Basel III Tier1 Capital) | (623) | (674) |
| 3 Total on-balance sheet exposures (excluding derivatives and SFT's) (sum of rows 1 and 2) | 3,257,272 | 2,988,066 |
| Derivative exposure | | |
| 4 Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and /or with bilateral netting) | 8,124 | 7,881 |
| 5 Add-on amounts for PFE associated with all derivative transactions | 15,225 | 18,416 |
| 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) | 23,349 | 26,297 |
| 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 | 1,161,885 | 1,198,693 |
| 18 (Adjustments for conversion to credit equivalent amounts) | (835,922) | (855,507) |
| 19 Off-balance sheet items (sum of rows 17 to 18) | 325,964 | 343,186 |
| Capital and total exposures | | |
| 20 Tier1 capital | 285,130 | 281,906 |
| 21 Total exposures (sum of rows 3,11,16 and 19) | 3,606,585 | 3,357,549 |
| Leverage Ratio | | |
| 22 Basel III Leverage Ratio | 7.91% | 8.40% |

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

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 | 102,610 | | 3,149,291 | |
| 020 Loans on demand | 57,610 | | 1,101,441 | |
| 030 Equity instruments | - | - | - | - |
| 040 Debt securities | 45,000 | 45,000 | 749,104 | 744,348 |
| 100 Loans and advances other than loans on demand | - | | 1,231,535 | |
| 120 Other assets | - | | 67,211 | |
| 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 | 20,526 | 21,920 | | |
| 020 Derivatives | 526 | 1,920 | | |
| 040 Deposits | 20,000 | 20,000 | | |
| 090 Debt securities issued | - | - | | |
| 120 Other sources of encumbrance | - | 80,690 | | |