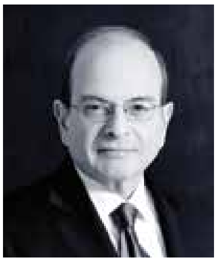
EuropeArabBank

PART OF THE ARAB BANK GROUP

ANNUAL REPORT
2015

ANNUAL REPORT 2015 CONTENTS

DIRECTORS, OFFICERS AND PROFESSIONAL ADVISERS


Mr Nemeh Sabbagh
Chairman


Mr Ziyad Akrouk
Chief Executive Officer


Mr Achim Klueber
Executive Director


Mr David Somers
Independent
Non-Executive Director


Sir Edward Leigh
Independent
Non-Executive Director


Mr Faris Sharaf
Non-Executive Director


Mr Ghassan Tarazi
Non-Executive Director

Directors

Mr Nemeh Sabbagh
Chairman

Mr Ziyad Akrouk
Chief Executive Officer

Mr Achim Klueber
Executive Director

Mr David Somers
Independent
Non-Executive Director

Sir Edward Leigh
Independent
Non-Executive Director

Mr Faris Sharaf
Non-Executive Director

Mr Ghassan Tarazi
Non-Executive Director

Executive Management

Mr Ziyad Akrouk
Chief Executive Officer

Mr Achim Klueber
Managing Director
Corporate & Institutional Banking

Mrs Andrena Da Silva
Head of Operations

Mr Charles Pickin
Chief Risk Officer

Mr Kevin Holt
Head of Human Resources
and Marketing & Communication

Mr Mohammad Shoaib Memon
Chief Financial Officer

Mr Neil Turnnidge
Head of Treasury

Ms Nicola Christofides
Head of Compliance

Mr Philip Arida
Head of Private Banking

Mr Ramadan Abulhawa
Head of Information Technology

Mr Samir El-Sukhun
Head of Credit

Company Secretary

Mr Andrew Wilson

Registered Office

13 - 15 Moorgate
London EC2R 6AD

Auditor

Deloitte LLP
Chartered Accountants
and Statutory Auditor
London
United Kingdom

STRATEGIC REPORT

Cautionary Statement

This Strategic Report has been prepared solely to provide information to the shareholder to assess how the Directors have performed their duty to promote the success of Europe Arab Bank plc. The Strategic Report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward looking information.

Overview

Europe Arab Bank ("EAB"), inclusive of its subsidiaries, has been operating since 2006 and provides as its core businesses Corporate & Institutional Banking ("CIB"), Private Banking and Treasury services to its clients. EAB operates through six offices in four European countries, focusing on business transacted between Europe & North America and the Middle East & North Africa ("MENA"). EAB is a wholly-owned subsidiary of Arab Bank plc ("the parent"), through which it has access to an extensive banking network in the MENA region.

Strategy and objectives

EAB's strategic objectives remain focused on the "Bridge to MENA" proposition. EAB is an integral part of the Arab Bank Group and complements the global Arab Bank Group footprint by extending coverage to and for European & North American clients into MENA and vice versa. EAB is a niche bank, focused on delivering excellence and value to our clients and business partners, and generating sustainable profits for our shareholder.

Business Model

EAB has a simple business model founded on three main business units, offering high service levels and building long-term relationships with clients and other stakeholders. The business is headquartered in London but also provides services to its clients through branches in Cannes, Frankfurt, Milan, and Paris. In addition, a dedicated Private Banking office has been established in London to service private clients. During 2015 EAB closed its branches in Madrid and Vienna but remains committed to serving its clients in the Spanish and Austrian markets through provision of services from its other offices.

The key activities of the three main business units are summarised below:

Corporate & Institutional Banking

Corporate & Institutional Banking ("CIB") offers lending, deposits, guarantees and trade finance products and concentrates on the development of long lasting, strategically aligned relationships with clients. The CIB Bridge to MENA strategy focuses on serving European & North American companies undertaking business in the MENA region, and MENA investment into Europe & North America. CIB works closely with our parent group and other financial institutions to offer geographic coverage and offers products on a conventional or Sharia compliant basis.

Private Banking

Private Banking's key function is to service our high net worth individual clients and act as a strategic liquidity provider. The business also makes available other products to clients including real estate financing and brokerage services on a non-advisory basis.

Treasury

EAB's Treasury department is responsible for the management of assets and liabilities, interest rate risk, liquidity and capital. In addition, Treasury also provides a range of financial products in money markets, capital markets, foreign exchange and derivative markets which are tailored to meet the needs of the private and corporate clients and enable them to manage their risks.

Financial Review

EAB's net profit after taxation for 2015 was €7.4m (2014: €8.9m), including one-off costs associated with reorganisation of the business and closure of two branches during 2015. The underlying business performance was robust with an increase in underlying profit (as shown below) against a background of a challenging environment in some of our key markets. Through focus on our core attributes of the Bridge to MENA strategy, complementing the Arab Bank Group's franchise and simplification of our business model, the Bank is better positioned to generate sustainable results with a more robust balance sheet.

STRATEGIC REPORT CONTINUED

Operating Profit (€m)	2015	2014
Net interest and similar income	33.4	33.9
Net fee and commission income	18.9	16.9
Other income (net)	-	0.1
Net operating income	52.3	50.9
Total operating expenses	(42.6)	(41.1)
Operating profit before impairment loss expense and tax expense as reported in the Income Statement	9.7	9.8
Adjusted for net exceptional items including costs associated with the reorganisation of business and the closure of branches	2.7	0.5
Underlying operating profit for the year before impairment loss expense and tax expense	12.4	10.3

Overall net interest and similar income ("NII") for 2015 was at a level similar to that for 2014 although there was a net reduction in customer loans in CIB due to continued exit of non-strategic assets, partly replaced by new business booked during the year in adherence to the strategy. Furthermore, EAB benefitted from higher income on non-Euro denominated assets on conversion to Euro as a result of movement in currency exchange rates.

Net commission income was also higher than 2014 where the underlying business activity, in particular for guarantees, was strong. The Bank also benefited from the strengthening of the US Dollar versus Euro.

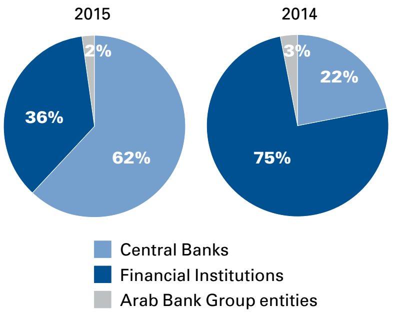
Operating expenses, excluding exceptional costs associated with the reorganisation of the business and the closure of branches, at €38.4m (2014: €40.6m) were 6% lower than prior year. The underlying operating expenses were impacted by the strengthening of Sterling versus the Euro which limited the benefit related to reduction in costs following reorganisation of the business.

Exceptional costs of €4.2m (2014: €0.5m) were incurred in 2015. These costs principally relate to closure of two branches and reorganisation of other parts of the business including associated employee redundancy costs, professional fees and occupancy related expenses.

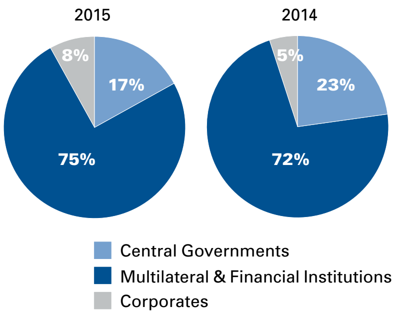
The impairment related charges at €2.7m (2014: €0.8m) for 2015 increased predominantly due to geo-political concerns associated with an exposure in one of the MENA countries.

STRATEGIC REPORT CONTINUED

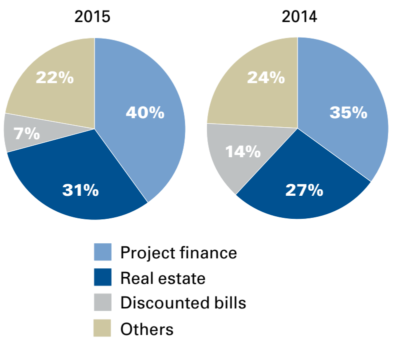
CASH AND BALANCES WITH BANKS AND SISTER COMPANIES



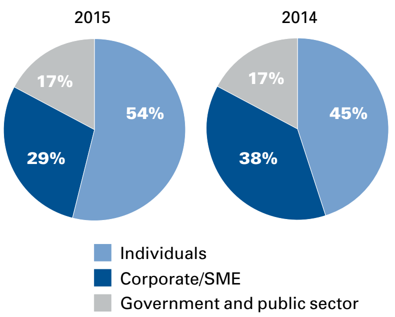
SECURITIES



LOANS AND ADVANCES TO CUSTOMERS



DEPOSITS BY CUSTOMER



Balance Sheet (€m)	2015	2014
Cash and balances with banks and sister companies	1,231	825
Securities	957	999
Loans and advances to customers	1,317	1,475
Other assets	72	69
Total assets	3,577	3,368
Deposits by and due to banks and sister companies	1,155	832
Deposits by customers	1,832	1,969
Other liabilities	49	56
Total liabilities less Tier 2 capital	3,035	2,857
Tier 2 capital	231	208
Shareholder's equity	311	303
Total capital and liabilities	**3,577**	**3,368**
Customer related contingent liabilities and commitments	**2,247**	**2,039**

Cash and balances with banks and securities principally relate to Treasury's assets and are primarily for liquidity purposes as well as generating a return on surplus liquidity. Cash and balances with banks increased compared to 2014 largely due to an increase in the overnight funds received which were placed onwards with central banks. The securities balance at the end of 2015 largely comprised highly rated sovereign and multilateral institutional holdings for liquidity purposes and highly rated financial institutions.

The reduction in the customer loan book, as noted earlier, was attributable to continued exit of non-strategic loans and other repayments offset by new loans booked in adherence to the strategy. The loan portfolio largely comprised project related financing for MENA connected clients, real estate lending (residential and commercial) for prime UK properties and short-term trade related discounting and financing facilities.

Deposits by banks and sister companies increased year on year largely due to higher overnight balances from Arab Bank Group entities. Customer deposits on the other hand reduced compared to 2014 particularly in our CIB business.
The customer deposit base remains well diversified between corporates, sovereign institutions, small and medium enterprises and high net-worth individuals having strong relationships with EAB.

The capital of the Company comprises US$ denominated perpetual subordinated notes (Tier 2 capital) and equity. The increase in Tier 2 capital is due to foreign exchange movements.

Customer related contingent liabilities largely comprise unfunded assets arising out of our Trade Finance business including letters of credit and guarantees and undrawn commitments.

STRATEGIC REPORT CONTINUED

KPI	DESCRIPTION	2015	2014
Adjusted loan to customer deposit ratio*	Represents EAB's ability to fund its lending from core deposits generated	62%	70%
Capital adequacy ratio	Measure of EAB's financial strength, expressed as a ratio of total capital to risk weighted assets	25%	22%
Tier 1 capital ratio	Measure of EAB's financial strength, expressed as a ratio of core equity Tier 1 capital to risk weighted assets	14%	13%
Coverage ratio	Reflects EAB's specific provisions against non-performing / classified assets (excluding collateral)	87%	97%
Adjusted Cost to Income Ratio	Measures operational efficiency of the business and the returns generated	76%	80%
Return on equity	Measure of EAB's return generated on shareholder's equity	3%	3%
Return on assets	Measure of return generated against total balance sheet assets	0.21%	0.26%

* Loan to deposit ratio adjusted to include certain central bank deposits as customer deposits.

Other Key Performance Indicators

EAB uses other Key Performance Indicators ("KPIs") to identify and monitor trends in the performance of the strategies employed. These KPIs are reviewed on a regular basis and form an integral part of the decision making process. The KPIs generally reflect an improvement in EAB's performance compared to 2014.

Principal Risks and Uncertainties

EAB's risk appetite is articulated in the Board of Directors' 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 requirements;
- 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; and
- EAB has zero tolerance for material errors, financial crime or compliance breaches.

For each type of risk, there are also measures of the preferred or target amount of that risk, and/or the maximum capacity that can be borne by EAB.

The principal risks are discussed further below including the techniques applied to manage and mitigate those risks.

STRATEGIC REPORT CONTINUED

RISK	RISK MITIGATION AND MANAGEMENT
Credit	
EAB faces credit and counterparty risk across its business units, particularly in CIB. EAB advances loans and off balance sheet facilities to a range of corporate and individual borrowers. In addition, surplus funds are placed with, or invested in, securities issued by other financial institutions, sovereign or multilateral institutions. A limited number of derivative contracts are also executed to hedge interest rate and foreign exchange risks through the Treasury business.	EAB has a policy of dealing with counterparties considered creditworthy in its assessment and obtaining sufficient collateral, where appropriate, to mitigate the risk of financial loss from default. EAB normally concentrates its lending efforts in areas in which it has competitive advantage, knowledge of the particular market and good understanding of the commercial and political risks involved within those markets. Credit risk is managed by establishing limits for individual counterparty, country, industry and transactions with related parties. Limit monitoring is undertaken on a regular basis. EAB has also adopted a credit grading system to facilitate monitoring the quality of the overall portfolio and individual exposures, and changes therein over time. Credit exposures are also stressed regularly. EAB's policy is to recognise impairment provisions in a timely manner through a focused approach to problem exposures. Impairment reviews, including recommendations for new impairment provisions or reversal of existing provisions, both specific and collective, are carried out on a regular basis.
Liquidity	
The risk that EAB does not have sufficient financial resources to meet its obligations as they fall due or EAB's business model develops in a way that causes difficulty in attracting adequate funding on reasonable terms. This also includes the risk that EAB experiences unexpected and/or acute liquidity shocks.	EAB follows a conservative approach to liquidity risk. EAB manages liquidity risk by maintaining adequate reserves, a liquidity portfolio, banking facilities and reserve borrowing facilities and by continuously monitoring and reviewing actual and forecast cash flows (both stressed and unstressed). An assessment of liquidity needs, known as the Internal Liquidity Adequacy Assessment Process ("ILAAP"), is undertaken at least annually and is presented to various governance committees for review, challenge and approval. The ILAAP describes how liquidity risks are assessed, controlled, monitored, mitigated and reported and helps the management determine what might be required to maintain liquidity assuming certain stressed conditions. In addition, reverse stress testing is also performed. EAB's assessment during 2015 is that it had more than adequate liquidity resources to withstand the effects of a severe liquidity shock and complied with the overall regulatory requirements.

STRATEGIC REPORT CONTINUED

RISK	RISK MITIGATION AND MANAGEMENT
Market	
EAB is exposed to market movements primarily due to changes in interest rates, foreign currency exchange rates and re-pricing of certain portfolios of financial instruments other than due to interest rate risk. Interest rate risk can pose a threat to EAB's earnings, values of its assets and liabilities and thus its P&L and capital base. Most of EAB's activities primarily fall into one of the three major currencies: EUR, GBP and USD. However, there are limited interests in a number of other foreign currencies.	Market risk is actively managed and monitored through use of various limits. EAB is generally averse to market risk and restricts proprietary market risk positions (other than cashflow or position hedges) to outright long bond positions, small trading FX positions and limited interest rate positioning on the yield curve. All other product types (for example option products, structured products, etc.) are dealt on a back-to-back, fully hedged basis and only to satisfy customer requests.
Capital	
This is the risk of having insufficient or inadequate economic or regulatory capital to support EAB's risk-taking activities. The risk may also arise from inadequacies in assessing the overall and future risks to which EAB may be exposed to on a stressed basis, leading potentially to a failure to plan, maintain and raise capital as appropriate. Also included therein is the risk of insufficient or inadequate capital to support EAB's pension obligations.	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 business and maximise shareholder's value. EAB manages its capital structure and makes adjustments to it in light of changes in economic conditions, regulatory requirements and risk characteristics of its activities. An internal assessment of capital needs, ("the ICAAP"), is undertaken at least annually and is presented to the various governance committees for review, challenge and approval. The ICAAP describes how risks are assessed, controlled, monitored, mitigated and reported, and helps management determine what might be required to maintain EAB's solvency assuming certain stressed conditions. In addition, reverse stress testing is also performed. EAB's assessment during 2015 is that it had more than adequate capital resources to withstand the effects of a severe economic downturn. The minimum amount of regulatory capital required is determined in accordance with the relevant rules and the Individual Capital Guidance ("ICG") received from the regulator. At 31 December 2015, and throughout the year, EAB's capital exceeded the regulatory requirements.

STRATEGIC REPORT CONTINUED

RISK	RISK MITIGATION AND MANAGEMENT
Regulatory	
EAB operates in a highly regulated environment. Regulatory and legislative changes or non-compliance with them have the potential to significantly impact the financial performance and/or reputation of EAB. The continuing regulatory and political focus on the financial services industry further increases the potential of material impact from regulatory risk.	EAB actively monitors regulatory and legal compliance and new developments whilst maintaining a regular dialogue with relevant regulatory authorities. EAB believes its simple business model, robust governance and controls, strong liquidity and capital position means that it is well placed to adapt to regulatory changes.

STRATEGIC REPORT CONTINUED

Notes 32 to 37 of the financial statements provide further information about these risks, the committees with responsibility for and the policies to manage the key risks including the derivative instruments used. Further details of EAB's regulatory capital ratios required under Pillar 3 are published on EAB's website. The total regulatory capital reported therein differs slightly from the balances shown in the Balance Sheet in light of adjustments in respect of certain reserves.

Regular management information is produced for various EAB committees and for the Board of Directors to report the risk profile. The Directors are confident that the current risk management structure is sufficient for identification, monitoring and management of significant financial risks to the business.

Employee Remuneration Policy

EAB's Remuneration Policy aligns with its business strategy, objectives, values and long-term interests and is in accordance with the regulatory Remuneration Code, being applied in an appropriate proportionate manner. The Policy promotes sound risk management and requires an appropriate ratio between fixed and variable remuneration.

The purpose of the Policy is to:

- Attract and retain people with the appropriate experience, competencies (technical and behavioural), knowledge and skills to deliver the strategy and plans;
- Incentivise employees to deliver sustained performance consistent with the strategy and objectives and effective risk management;
- Encourage behaviour consistent with the culture, values and principles of good governance; and
- Deliver remuneration that is affordable and appropriate being in line with market practices and rates, employment market conditions and EAB's performance and ability to pay.

The general principles of the Policy include:

- Performance will be assessed using pre-determined measures which may be both financial and non-financial;
- Performance measures can change year on year to reflect evolving business strategy, objectives and long-term interests of the firm; and
- The Risk and Compliance functions will have input into the performance assessment of individual Code Staff, to include where these functions have concerns about the behaviour of the individual(s) in relation to appropriate risk appetite and decisions and actions taken, or the riskiness of the business undertaken.

Going Concern Basis

The business activities together with the performance and position, the principal risks and uncertainties and factors likely to affect its future development are set out in this Report. In addition, notes to the financial statements include the objectives, policies and processes for managing the capital; financial risk management objectives; details of financial instruments and hedging activities; and the exposure to credit, market, liquidity and other risks.

EAB maintains a capital surplus, and a strong liquidity base which has remained largely unaffected during the recent uncertain economic, political and social environment in its key markets. The customer base is sufficiently diverse, with operational revenues and funding levels remaining materially unaffected. In addition, EAB benefits from financial and other support of Arab Bank Group, as evidenced through the additional capital injections in prior years. As a consequence, the Directors believe that EAB is well placed to manage its business risks successfully.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Future Outlook

EAB expects to build on its results in the upcoming periods through execution of the clearly defined strategic objectives, with the aim of generating sustainable returns for the shareholder. It is well positioned to meet the evolving regulatory requirements under the Capital Requirements Directive ("CRD IV").

The key risks have been noted above with the following potential challenges reiterated as they may affect the operating results in the upcoming periods:

- Economic conditions, particularly in Europe and MENA. These could impact the performance in a number of different ways such as lower demand for financial products due to lower economic activity including as a result of sustained low oil prices, consequent changes to the Company's risk appetite or potential asset impairments due to weakening credit quality of clients;
- Continued geopolitical instability in the MENA region may affect key markets and clients including new business and existing exposures; and
- Further significant changes to the regulatory or legislative environment that could have a bearing on how the business operates and the Company's financial position.

Approved by the Board and signed on its behalf by:

Andrew Wilson
Company Secretary
Date: 4 February 2016
13 -15 Moorgate
London EC2R 6AD

CORPORATE GOVERNANCE

The Board of Directors of EAB ("the Board") is responsible for the overall governance of the Company and the Directors have sought to ensure that the standards of good practice set out in the UK Corporate Governance Code, although not directly applicable to EAB, are adhered to where considered appropriate.

The key objectives of the Board are to ensure that the business of the Company is conducted in an efficient and effective manner in order to promote the success of the Company within an established framework of effective systems of internal control, risk management and compliance, in accordance with regulatory requirements.

The primary responsibilities of the Board include:

- Setting the Company's strategy taking into account the interests of its stakeholders;
- Ensuring that the business has an effective system of internal control and management of business risks and is conducted in accordance with the PRA's Fundamental Rules;
- Monitoring financial information and reviewing the overall financial condition of the Company and its position as a going concern;
- Reviewing major developments in business lines and support units;
- Reviewing the priorities for allocating capital and operating resources;
- Monitoring of compliance and reputational issues;
- Reviewing the market, credit and liquidity risks and exposures with additional oversight and control over credit risk management; and
- Reviewing the application of stress tests and appropriateness of the Company's stress testing policy.

The Directors who served during the period are listed in the Directors' Report. As at the end of the year, two of the serving Non-Executive Directors are independent to the Arab Bank Group.

The Board has compiled a list of matters reserved for which the Board's approval is required and has delegated authority and responsibility for day-to-day management of the Company to the Chief Executive Officer, who is assisted by the Executive Committee.

To help carry out its responsibilities, the Board has also established the following committees with terms of reference setting out matters relevant to the committees' composition, responsibilities and administration:

- Board Audit & Risk Committee
- Nomination & Remuneration Committee

Board Audit & Risk Committee

The Board Audit & Risk Committee's primary responsibilities are to:

- Review and provide challenge to EAB's financial reporting;
- Review EAB's key internal control policies, processes and procedures and assess and monitor the effectiveness of those internal controls and accompanying internal and external audit and risk assurance processes;
- Review the Company's overall approach to Compliance and associated procedures and processes;
- Consider the appointment and independence of the external auditors, and review regularly the findings of their work; and
- Review EAB's overall approach to risk, its management and reporting line frameworks, which include 1) reviewing and monitoring the effectiveness, integrity and quality of risk identification, assessment and management processes and risk strategies; 2) overseeing risk management accountability, reporting and compliance with risk management policies; and 3) ensuring all material risks are brought to the attention of the Committee and Board in a timely manner.

The membership of the Committee comprises four Non-Executive Directors, two of whom are independent. Mr David Somers, a qualified accountant who has relevant financial experience, is the Chairman of the Committee. The other Committee members are Sir Edward Leigh, Mr Faris Sharaf and Mr Ghassan Tarazi. At the invitation of the Chairman of the Committee, the Chief Executive Officer, the Head of Internal Audit, the Chief Risk Officer, Head of Compliance, External Auditors and the Chief Financial Officer regularly attend meetings. Amongst its key activities for the year ended 31 December 2015, the Committee:

- Met regularly to review quarterly reports received from: Executive Risk & Compliance Committee (and minutes), Head of Internal Audit and Head of Compliance; six meetings of the Committee took place during the year;
- Reviewed EAB's Annual Report 2014 and Financial Statements;
- Received quarterly updates from the Company's Senior Statutory Auditor;
- Reviewed EAB's ICAAP and associated Board decision-making processes as well as EAB's ILAAP, and EAB's approach to reverse stress testing and EAB's Recovery & Resolution Plans;
- Reviewed the Risk Map of EAB and the revised Risk Map methodology; monitored compliance with Risk Appetite Statements and Measures along with corresponding Values of Appetite and the newly established Overarching Risk Appetite Summary;

CORPORATE GOVERNANCE CONTINUED

- Reviewed Overarching Risk Dashboard and material Risk Dashboards and reported critical risks to EAB Board from Chief Risk Officer;
- Reviewed the Internal Audit Plan for 2016 and the Internal Audit Charter and the adequacy of the Internal Audit Function. Following the Committee's approval of the Internal Audit Budget in consultation with Executive Management, the Board confirm that they are satisfied that Internal Audit has appropriate resources to deliver the Internal Audit Plan for 2016;
- Reviewed the Compliance Monitoring Programme and various compliance and financial crime prevention related policies as well as various Treasury related policies; and it was agreed that the Committee would receive the minutes from the newly formed Financial Crime Compliance Committee;
- Reviewed EAB's procedures for protecting whistle blowing and ensure that arrangements are in place by which staff may, in confidence, raise concerns about financial control or other matters; and
- A review assessing the qualification, expertise and resource, effectiveness and independence of the External Auditors was undertaken and the results reviewed by the Committee.

Nomination & Remuneration Committee

The Nomination & Remuneration Committee's primary responsibilities are to:

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

The membership of the Committee comprises Non-Executive Directors, two of whom are independent. The members of the Committee are Mr Nemeh Sabbagh (Chairman of the Committee), Mr David Somers and Sir Edward Leigh.

Key activities for the year ended 31 December 2015 included:

- Reviewed Code Staff KPI and performance assessments, bonus and salary proposals taking into consideration input from risk management functions;
- Reviewed and approved the Company's Remuneration Policy and Remuneration Policy Statement;
- Reviewed the Succession Plan for Senior Management; and
- Review of Committee's Terms of Reference

A summary of EAB's employee Remuneration Policy is contained in the Directors' Report.

Executive Committee

The Executive Committee represents the principal forum for conducting the day-to-day business of the Company. Whilst retaining the ultimate responsibility for the action taken, the Executive Committee at its discretion has delegated certain responsibilities to the following standing sub-committees:

- Asset & Liability Committee
- (ALCO) Executive Risk & Compliance Committee
- Executive Credit Committee

DIRECTORS' REPORT

The Directors present their annual report on the affairs of Europe Arab Bank plc ("EAB" or "the Company" which includes the branches of Europe Arab Bank plc in Austria, France, Germany, Italy and Spain), together with the strategic report, financial statements and auditor's report, for the year ended 31 December 2015. EAB is registered in England and Wales with number 5575857 and is authorised by the PRA and regulated by the FCA and the PRA.

Results
The profit after taxation for the year amounts to €7.4m (2014: €8.8m). The Directors do not propose any dividend to be paid for 2015 (2014: €nil).

Post-balance Sheet Events
There have been no reportable events subsequent to the balance sheet date.

Changes in Accounting Policies
Changes in accounting policies during the year are included in Note 1 of the financial statements.

Consolidated Financial Statements
The Company has availed itself of the exemption under Section 401 of the Companies Act 2006 and has not published consolidated financial statements for the Company and its subsidiaries.

Directors
The Directors who served during the year were as follows:

Mr Nemeh Sabbagh – Chairman
Mr Ziyad Akrouk – Chief Executive Officer
Mr Achim Klueber – Executive Director
Mr David Somers – Independent Non-Executive Director
Sir Edward Leigh – Independent Non-Executive Director
Mr Faris Sharaf – Non-Executive Director
Mr Ghassan Tarazi – Non-Executive Director
Mr Samer Tamimi – Non-Executive Director
(resigned 30 April 2015)

None of the Directors holds or has held shares in the Company or any of its subsidiaries.

Directors' Indemnities
The Articles of Association of EAB provide that, subject to the Companies Act 2006, Directors and other officers are entitled to be indemnified out of the assets of the Company against all costs, charges, expenses, losses or liabilities arising in connection with the performance of their functions. Such indemnity provisions have been in place during the period and remain in force at the date of this report; appropriate insurance cover in respect of such liability is maintained.

Auditor
The Company has a policy governing appointment of external auditor for non-audit engagements, which allows monitoring of independence of the external auditor.

Each of the persons who is a Director at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- The Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be considered at the forthcoming Annual General Meeting.

Finally, the Directors would like to extend their thanks to all the staff for their continued commitment to EAB and contributions during 2015.

Approved by the Board and signed on its behalf by:

Andrew Wilson
Company Secretary
Date: 4 February 2016
13 -15 Moorgate
London EC2R 6AD

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the strategic report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that they face.

Approved by the Board and signed on its behalf by:

Andrew Wilson
Company Secretary
Date: 4 February 2016
13 -15 Moorgate
London EC2R 6AD

INDEPENDENT AUDITOR'S REPORT
to the members of Europe Arab Bank plc

We have audited the financial statements of Europe Arab Bank plc for the year ended 31 December 2015 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 38. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Oliver Grundy, FCA
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and
Statutory Auditor
London, United Kingdom
4 February 2016

BUILDING ON FIRM FOUNDATIONS
FOCUSED ON OUR BRIDGE TO MENA STRATEGY

Europe Arab Bank will continue to build on the strong foundations that have contributed to a positive performance in 2015: our Bridge to MENA proposition; a conservative approach to credit risk; carefully controlled liquidity and funding risk; strong capital ratios; and robust governance across every aspect of the business.

CORPORATE & INSTITUTIONAL
The MENA region is continuing to develop at pace. EAB offers clients the finance, skills and support they can rely on to trade in the region and develop projects with confidence.

PRIVATE BANKING
Private Banking clients benefit from the Arab Bank Group network, a highly personalised service and a range of deposit and banking services to suit their individual needs.

TREASURY SERVICES
In addition to providing clients with bespoke risk management solutions in the money, foreign exchange and derivative markets, Treasury plays a key role in managing liquidity for the Bank.

INCOME STATEMENT

Year ended 31 December 2015

	Notes	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Continuing operations			
Interest and similar income	2	47,855	48,063
Interest and similar expense	2	(14,483)	(14,128)
Net interest and similar income		33,372	33,935
Fee and commission income	3	20,373	18,724
Fee and commission expense	3	(1,490)	(1,841)
Net trading losses	4	(2,674)	(2,084)
Other operating income	5	2,708	2,125
Net operating income		52,289	50,859
Amortisation of intangible assets	19	(133)	-
Depreciation of property, plant and equipment	20	(1,138)	(1,459)
Other operating expenses	6	(41,293)	(39,645)
Total operating expenses before impairment losses		(42,564)	(41,104)
Operating profit before impairment loss expense and tax expense		**9,725**	**9,755**
Impairment loss expense	8	(2,646)	(851)
Profit before tax		7,079	8,904
Tax credit/(expense)	9	290	(64)
Profit for the year		7,369	8,840
Attributable to:			
Owners of the Company		7,369	8,840
		7,369	8,840

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Profit for the year	7,369	8,840
Items that will not be reclassified subsequently to profit or loss:		
Re-measurement of net defined benefit pension liability	421	(11,596)
	421	(11,596)
Items that may be reclassified subsequently to profit or loss:		
Available for sale assets:		
- Fair value (losses)/gains taken to equity on financial investments	(2,506)	1,602
- Fair value gains taken to equity on investment in subsidiaries	1,833	2,218
Exchange differences on translation of non-Euro denominated operations	5	4
	(673)	3,824
Other comprehensive loss for the year	(252)	(7,772)
Total comprehensive income for the year	7,117	1,068
Attributable to:		
Owners of the Company	7,117	1,068

BALANCE SHEET

as at 31 December 2015

	Notes	2015 €'000	2014 €'000
Assets			
Cash and balances at central banks	11	766,472	187,373
Due from banks	12	464,692	637,819
Fair value through profit or loss			
- Held for trading	13	375,240	541,464
Loans and advances to customers	14	1,316,729	1,475,398
Financial investments			
- Available for sale	15	523,214	422,522
- Held to maturity	15	58,184	35,474
Derivative financial instruments	17	13,331	10,721
Investment in subsidiaries	18	34,479	32,637
Other intangible assets	19	1,049	-
Property, plant and equipment	20	3,040	3,622
Other assets	21	19,992	20,584
Deferred tax assets	10	714	-
Total assets		3,577,136	3,367,614
Liabilities and Equity			
Liabilities			
Due to banks	23	1,154,661	832,385
Due to customers	24	1,831,925	1,968,469
Derivative financial liabilities	17	15,872	22,501
Other liabilities	25	22,282	22,631
Current tax liabilities		272	341
Retirement benefit liabilities – defined benefit scheme	22	10,344	9,828
Subordinated liabilities	26	231,165	207,966
Total liabilities		3,266,521	3,064,121
Equity			
Called up share capital	27	609,998	609,998
Retained earnings		(296,464)	(304,254)
Foreign exchange reserve		(3)	(8)
Available for sale reserve		(2,916)	(2,243)
Total equity		310,615	303,493
Total liabilities and equity		3,577,136	3,367,614

These financial statements were approved by the Board of Directors and authorised for issue on 4 February 2016.
Signed on behalf of the Board of Directors:

Ziyad Akrouk
Director

Achim Klueber
Director

Company Registration No. 5575857

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Ordinary Share Capital €'000	Available for Sale Reserve €'000	Foreign Exchange Reserve €'000	Retained Earnings €'000	Total Shareholders Equity €'000
As at 31 December 2013	609,998	(6,063)	(12)	(301,498)	302,425
Profit for the year attributable to shareholders	-	-	-	8,840	8,840
Other comprehensive income/(loss)	-	3,820	4	(11,596)	(7,772)
As at 31 December 2014	609,998	(2,243)	(8)	(304,254)	303,493
Profit for the year attributable to shareholders	-	-	-	7,369	7,369
Other comprehensive income/(loss)	-	(673)	5	421	(247)
As at 31 December 2015	609,998	(2,916)	(3)	(296,464)	310,615

CASH FLOW STATEMENT

Year ended 31 December 2015

	2015 €'000	2014 €'000
Cash flows from operating activities		
Profit before tax, adjusted for:	7,079	8,904
- Depreciation	1,138	1,459
- Amortisation	133	-
- Impairment loss expense	2,646	851
- Net foreign exchange gain on subordinated liabilities	23,199	25,093
- Other non-trading assets	592	864
- Other non-trading liabilities	168	7,958
- Remeasurement of net defined benefit pension liability	421	(11,596)
	35,376	33,533
Decrease/(Increase) in operating assets		
Funds advanced to customers	156,023	37,947
Funds advanced to banks	173,127	25,370
Fair value through profit or loss and derivatives	156,985	(84,764)
Financial investments	(125,919)	4,941
	360,216	(16,506)
Increase/(Decrease) in operating liabilities		
Customer deposits	(136,544)	16,214
Funds received from banks	322,276	(167,150)
	185,732	(150,936)
Income taxes (paid)/received	(487)	15
Net cash inflows/(outflows) from operating activities	580,837	(133,894)
Cash flows from investing activities		
Acquisition of property, plant and equipment	(556)	(162)
Acquisition of intangible assets	(1,182)	-
Investment in subsidiaries	-	597
Net cash (outflows)/inflows from investing activities	(1,738)	435
Flows from financing activities		
Proceeds from issue of ordinary shares	-	-
Net cash inflows from financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	579,099	(133,459)
Cash and cash equivalents at 1 January	187,373	320,832
Cash and cash equivalents at 31 December	766,472	187,373

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

1. ACCOUNTING POLICIES

Corporate information
Europe Arab Bank plc is incorporated and registered in England and Wales and provides a wide range of banking and financial services including Corporate & Institutional Banking, Private Banking and Treasury services.

Basis of preparation
The financial statements of Europe Arab Bank plc ('the Company') have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body.

The financial statements are presented in Euros (€), which is the functional currency of the Company. The financial statements have been prepared under a going concern basis as set out in the Strategic Report.

Accounting convention
The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies are set out below.

Adoption of new and revised standards
The following new and revised standards and interpretations have been adopted in the current year. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
The amendments to IAS 19 clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service. The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the financial statements.

Annual Improvements to IFRSs 2010 – 2012 Cycle
The majority of the amendments are in the nature of clarifications rather than substantive changes to existing requirements. However, the amendments to IFRS 8 Operating Segments - Aggregation of operating segments and IAS 24 Related Party Disclosures - Key management personnel represent changes to existing requirements. The application of the amendments has had no material impact on the disclosures or on the amounts recognised in the financial statements.

Annual Improvements to IFRSs 2011 – 2013 Cycle
The amendments are in the nature of clarifications rather than substantive changes to existing requirements. The application of the amendments has had no material impact on the disclosures or on the amounts recognised in the financial statements.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 11 (amendments) Accounting for Acquisitions of Interests in Joint Operations
- IAS 1 Disclosure Initiative
- IAS 16 and IAS 38 (amendments) Clarification of Acceptable Methods of Depreciation and Amortisation
- IAS 16 and IAS 41 (amendments) Agriculture: Bearer Plants
- IAS 27 (amendments) Equity Method in Separate Financial Statements
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRS 10, IFRS 12 and IAS 28 (amendments) Investment Entities: Applying the Consolidation Exemption
- Annual Improvements to IFRSs: 2012-2014 Cycle Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting.

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Company in future periods, except as follows:

- IFRS 9 will impact both the measurement and disclosures of financial instruments.
- IFRS 15 may have an impact on revenue recognition and related disclosures.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

Critical accounting judgements and key sources of estimation uncertainty
The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. The critical accounting judgements are noted below.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

1. ACCOUNTING POLICIES (CONTINUED)

(i) Fair value of financial instruments

Where the fair values of financial assets and liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include use of mathematical models. The inputs to these models are largely derived from observable market data, but where observable market data is not available, judgement is required to establish fair values.

(ii) Impairment losses on loans and advances

The Company reviews its individually significant loans and advances on an individual and collective basis at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. In particular, judgement by management is required in estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Company makes judgements about the borrowers' financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment loss allowance.

(iii) Impairment of financial investments

The Company reviews its financial investments at each balance sheet date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

(iv) Retirement benefit obligations

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of the plan, such estimates are subject to uncertainty.

Significant accounting policies

(a) Interest and similar income and expense

Interest and similar income on financial assets that are classified as loans and receivables, held to maturity or available for sale, and interest expense on financial liabilities other than those at fair value through profit or loss, are recognised in the 'Interest and similar income' and 'Interest and similar expense' sections of the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. Calculation of the effective interest rate takes into account fees receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition, early redemption fees and transaction costs.

(b) Non-interest income: Fee and commission income

Fee and commission income is accounted for depending on the services to which the income relates:

- Income earned on the execution of a significant item is recognised in 'Fee income' when the act is completed;
- Income earned in respect of services is recognised in 'Fee income' as the services are provided; and
- Income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Interest and similar income' (Note 1(a)).

(c) Net trading income

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and related dividends.

(d) Financial assets

The Company classifies its financial assets in the following categories:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held to maturity investments; and
- Available for sale financial assets.

Management determines the classification of financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial assets that are held for trading, and those designated by management as being at fair value through profit or loss on initial recognition.

Financial assets are classified as held for trading if they are acquired principally for the purposes of generating a profit from short-term fluctuations in price or dealers' margin, or form part of a portfolio of similar assets for which there is evidence of a recent actual pattern of short-term profit-taking, or are derivatives (not designated into a qualifying hedge relationship).

Financial assets may be designated at fair value through profit or loss only if such a designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; (b) applies to a group of financial assets, financial liabilities, or both that the Company manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

1. ACCOUNTING POLICIES (CONTINUED)

Financial assets at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in the income statement. Subsequently, gains and losses arising from changes in fair value are recognised as they arise in the income statement.

The method of determining fair value is described in note 1(h) of these financial statements.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified upon initial recognition as available for sale or at fair value through profit and loss.

Loans and receivables are initially recognised at fair value including direct and incremental transaction costs and are subsequently measured at amortised cost, using the effective interest rate method (note 1(a)), less any impairment losses.

Held to maturity investments

Held to maturity investments are non-derivative financial assets including debt securities with fixed or determinable payments that the management has the positive intention and ability to hold to maturity.

Held to maturity assets are initially recognised at fair value including direct and incremental transaction costs and are subsequently measured at amortised cost, using the effective interest rate method (note 1(a)), less any impairment losses.

Available for sale financial assets

Available for sale assets are non-derivative financial assets including debt securities that are designated as available for sale on initial recognition or are not classified into any of the other categories described above.

Available for sale assets are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included as a separate component of shareholders' equity in other comprehensive income (OCI), until sale or impairment, when the cumulative gain or loss is transferred to the income statement. Interest determined using the effective interest method (note 1(a)), impairment losses, and translation differences on monetary assets and dividends received where the right to receive payment is established are recognised in the income statement.

The method of determining fair value is described in note 1(h) of these financial statements.

Regular way purchases and sales of financial assets

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date the Company commits to purchase assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulators or convention in marketplace.

(e) Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets not carried at fair value through the profit or loss is impaired.

A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events since initial recognition of the assets have adversely affected the amount or timing of future cash flows from the assets.

Financial assets held at amortised cost

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as held to maturity or loans and receivables has been incurred, the amount of impairment loss is measured as the difference between the asset or group of assets carrying amount and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate determined on initial recognition.

Impairment losses are recognised in the income statement and the carrying amount of the financial assets or group of financial assets are reduced by establishing an allowance for impairment losses.

If, in a subsequent period, the amount of the impairment loss reduces and the reduction can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When an asset is uncollectable, it is written off against the related provision for impairment. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the income statement.

Allowances for impairment represent management's estimate of losses incurred at the balance sheet date. Impairments are calculated on an individual and collective basis using discounted expected future cash flows. Subjective judgements are made in this process. Changes in these estimates could result in a change in allowances and have a direct impact on the impairment charge.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

1. ACCOUNTING POLICIES (CONTINUED)

For all reversals of impairments, it is noted that the decrease in the impairment loss related objectively to an event occurring after the initial impairment was recognised, for example from an improvement in the debtor's previous credit rating. None of the reversals of impairments has caused the assets to have a carrying value higher than its amortised cost if the impairment had never been recognised.

In determining the recoverability of the asset, the Company considers any change in the credit quality from the date the credit was initially granted up to the reporting date.

Assets classified as available for sale

When a decline in the fair value of an available for sale financial asset has been recognised in OCI and there is objective evidence of impairment, the cumulative loss, being the difference between the asset's acquisition cost and its current fair value, less any impairment loss on that asset previously recognised in the income statement is removed from equity and recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and the increase can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the income statement.

Impairment losses on available for sale equity instruments are not reversed through the income statement.

(f) Financial liabilities

The Company classifies its financial liabilities in the following categories:

– Financial liabilities designated at fair value through profit or loss; and
– Other financial liabilities.

Management determines the classification of all financial liabilities at initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise financial liabilities that are held for trading, and those designated by management as being at fair value through profit or loss on initial recognition.

Financial liabilities are classified as held for trading if they are acquired principally for the purposes of generating a profit from short-term fluctuations in price or dealers margin, or form part of a portfolio of similar liabilities for which there is evidence of a recent actual pattern of short-term profit-taking, or they are derivatives (not designated into a qualifying hedge relationship).

Financial liabilities may be designated at fair value through profit or loss only if such a designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; (b) applies to a group of financial assets, financial liabilities, or both that the Company manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract.

Financial liabilities at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in the income statement. Subsequently, gains and losses arising from changes in fair value are recognised as they arise in the income statement.

Other financial liabilities

Other financial liabilities are measured at amortised cost, using the effective interest rate method (note 1(a)).

(g) Derecognition of financial assets and liabilities

Financial assets are derecognised when the right to receive cash flows from the assets has expired; or when the Company has transferred its contractual right to receive the cash flows of the financial assets, and substantially all the risks and rewards of ownership; or where control is not retained.

Financial liabilities are derecognised when they are extinguished, that is when all obligations are discharged, cancelled or have expired.

(h) Determining fair value

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price.

Subsequently, the fair value of financial instruments that are quoted in an active market are based on bid price (for assets) and offer price (for liabilities). Where there is no quoted market price in an active market, fair values are determined using valuation techniques which refer to observable market data. These include comparison with similar market instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where the fair value cannot be reliably determined for an investment in an equity instrument, the instrument is measured at cost.

(i) Derivatives

Derivatives are classified as held for trading and accounted for in accordance with note 1(d) unless they are designated into a qualifying hedge relationship.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

1. ACCOUNTING POLICIES (CONTINUED)

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset in accordance with note 1(k) below.

Hedge accounting

The Company makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risks, the Company applies hedge accounting for transactions which meet specified criteria.

At inception of the hedge relationship, the Company formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedge relationship at inception and on an ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value attributable to the hedged risk in the hedged item, at inception and on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognised in the income statement in 'Net trading income'.

Embedded derivatives

Derivatives may be embedded in other financial instruments. Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract; the terms of the embedded derivative are the same as those of a stand-alone derivative; and the combined contract is not held for trading or designated at fair value through profit or loss.

(j) Sale and repurchase agreements

Investment and other securities may be lent or sold subject to a commitment to repurchase them (a 'repo'). Such securities are retained on the balance sheet when substantially all the risks and rewards of ownership remain with the Company, and the counterparty liability is included separately on the balance sheet as appropriate. Similarly, where the Company borrows or purchases securities subject to a commitment to resell them (a 'reverse repo') but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the balance sheet. The difference between sale and repurchase price is accrued over the life of the agreements using the effective interest method (see note 1(a)).

(k) Offset of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet where there is a legal right to offset the recognised amounts and the parties intend to settle the cash flows on a net basis, or realise the asset and settle the liability simultaneously.

(l) Investment in subsidiaries

Investment in equity instruments of subsidiaries is accounted for as Available for Sale in separate financial statements of the Company.

(m) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment are depreciated at their depreciable amounts according to the straight-line method over the estimated useful life of each class of asset. Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. The useful life for each class of asset is as follows:

Freehold improvements	12 Years
Leasehold improvements	Over the remaining life of the lease
Furniture, fixtures and fittings	6 years
Software related to hardware	5 years
Motor vehicles	5 years
Computer, communication and equipment	3 years

At each balance sheet date property, plant and equipment are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the higher of the asset's net selling price and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

The carrying values of fixed assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

1. ACCOUNTING POLICIES (CONTINUED)

The carrying amount of the fixed asset will only be increased up to the amount that it would have been had the original impairment not been recognised.

(n) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The useful life for each class of intangible asset is as follows:

Software	5 years

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

At each balance sheet date, the Company reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(n) Leases

Operating lease rentals payable are recognised as an expense in the income statement on a straight-line basis over the lease term unless another systematic basis is more appropriate.

(o) Employee benefits

Short-term employee benefits, such as salaries, paid absences and other benefits, are accounted for on an accruals basis over the period which employees have provided services in the year. Bonuses are recognised to the extent that the Company has a present obligation to its employees that can be measured reliably. All expenses related to employee benefits are recognised in the income statement in staff costs, which is included within operating expenses.

The Company provides both defined benefit and defined contribution pension scheme for its staff.

For the defined benefit retirement benefit scheme, the cost of providing benefits is determined using the projected unit credit method with actuarial valuations being carried at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled. Past service cost is recognised in the income statement in the period of scheme amendment. Net-interest is calculated by applying a discount rate to the net defined benefit liability or asset.

The retirement benefit obligation recognised in the consolidated balance sheet represents the deficit or surplus in the Company's defined benefit scheme. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the scheme or reductions in the future contributions to the scheme.

For defined contribution schemes, the Company recognises contributions due in respect of the accounting period in the income statement. Any contributions unpaid at the balance sheet date are included as a liability.

(p) Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation as a result of past events, and a reliable estimate can be made of the amount of the obligation.

(q) Taxes

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in shareholders' equity, in which case it is recognised in shareholders' equity.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous year.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

1. ACCOUNTING POLICIES (CONTINUED)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is determined using tax rates and legislation enacted, or substantively enacted, by the balance sheet date and is expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(r) Foreign currencies

Items included in the financial statements of each of the Company's entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates. Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the period end.

Transactions in foreign currencies are translated into Euros at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Euros at the rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in profit or loss except for differences arising on cash flow hedges. Non-monetary items denominated in foreign currencies that are stated at fair value are translated into Euros at foreign exchange rates ruling at the dates the values were determined. Translation differences arising on non-monetary items measured at fair value are recognised in profit or loss except for differences arising on available-for-sale non-monetary financial assets, such as equity shares, which are included in the available-for-sale reserve in equity unless the asset is the hedged item in a fair value hedge.

The assets and liabilities of non-Euro denominated operations are translated into Euros at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into Euros at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on the translation of foreign operations are recognised directly in equity.

(s) Capital instruments

The Company classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Company after the deduction of liabilities. The components of a compound financial instrument issued by the Company are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with central banks of a short-term nature.

(u) Segment reporting

The Company's segmental reporting is based on the following strategic business units: Corporate & Institutional Banking; Treasury; Private Banking and Others, which includes centralised functions.

(v) Company only financial statements

The Company is a wholly-owned subsidiary of Arab Bank plc, a company incorporated in Jordan, and in accordance with Section 401 of the Companies Act 2006, is not required to produce, and has not published, consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

2. INTEREST AND SIMILAR INCOME AND EXPENSE

	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Interest and similar income		
Cash and funds held with central banks	(10)	62
Due from banks	1,132	902
Fair value through profit or loss	(394)	1,985
Loans and advances to customers	37,202	37,025
Financial investments	9,925	8,089
Total interest and similar income	47,855	48,063
Interest and similar expense		
Due to banks	(3,084)	(3,141)
Customer accounts	(9,376)	(9,678)
Subordinated liabilities	(1,643)	(1,309)
Other	(380)	-
Total interest and similar expense	(14,483)	(14,128)
Net interest and similar income	33,372	33,935

3. FEES AND COMMISSION INCOME AND EXPENSE

	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Banking and credit related fees and income	18,521	16,463
Other commissions and fee income	1,852	2,261
Fees and commission income	20,373	18,724
Fees and commission expense	(1,490)	(1,841)

Fees arising from trust and other fiduciary activities that result in the holding of assets on behalf of individuals, trusts or other institutions amounted to €124,005 (2014: €63,810).

4. NET TRADING LOSSES

	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Foreign exchange dealing	989	1,074
Others	(3,663)	(3,158)
	(2,674)	(2,084)

Net interest income on held for trading financial instruments has been included in Interest and similar income and expense (note 2).

5. OTHER OPERATING INCOME

	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Revenue from services	209	222
Services to Arab Bank Group and subsidiaries	491	846
Other revenue	2,008	1,057
	2,708	2,125

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

6. OPERATING EXPENSES

	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Staff costs (see note 7)	26,254	22,778
Administrative expenses	6,045	8,480
Auditor's remuneration (see below)	919	686
Operating lease rentals	2,341	2,473
Other expenses	5,734	5,228
	41,293	39,645

Included in operating expenses are costs associated with the reorganisation of business and the closure of branches of €4.2m (2014: €0.5m).

Auditor's remuneration

Amounts paid and payable to the Company's principal auditor, Deloitte LLP and its affiliated firms were as follows:

	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	476	404
Total audit fees	476	404
Other services:		
- Audit related assurance services	102	101
- Taxation compliance services	155	125
- Other services	186	56
Total non-audit fees	443	282
	919	686

7. STAFF COSTS

	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Salaries, wages and allowances	21,738	18,360
Social security costs	2,849	2,875
Pension costs – defined benefit scheme (see note 22)	-	2
Pension costs – defined contribution scheme	1,667	1,541
	26,254	22,778

The average number of permanent persons employed by the Company in 2015 was 137 (2014: 150). Of these, 50 (2014: 53) were employed in the strategic business units and credit administration; 68 (2014: 79) were employed in the support units and 19 (2014: 18) were employed in control and risk functions. The total number of persons employed at the end of 2015 was 132 (2014: 141).

8. IMPAIRMENT LOSS EXPENSE

	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Loans and advances to customers	4,416	5,184
Financial investments – held to maturity	-	4,951
Less: recoveries/releases during the year	(1,770)	(9,284)
	2,646	851

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

9. TAX (CREDIT)/EXPENSE

	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Current taxation:		
UK corporation tax charge for the year	260	-
Foreign tax for current year	165	-
Foreign tax adjustment in respect of prior years	(1)	64
	424	64
Deferred tax	(714)	-
Taxation (credit)/expense	**(290)**	**64**

The actual tax charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 20.25% (2014: 21.5%) as follows:

	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Profit before tax	7,079	8,904
Expected tax charge at 20.25% (2014: 21.5%)	1,433	1,914
Permanent disallowables	118	434
Foreign profits taxed at other rates	165	-
Foreign tax adjustment in respect of prior years	(1)	(64)
Movement in temporary differences not recognised	(1,291)	-
Deferred tax assets recognised	(714)	-
Brought forward losses utilised	-	(2,535)
Deductible items included in reserves	-	315
Actual tax (credit)/charge in Income Statement	(290)	64

10. DEFERRED TAX

Deferred tax assets recognised by the company and movements thereon during the current reporting period in respect of:

	Fixed assets temporary differences		Total	
	2015 €'000	2014 €'000	2015 €'000	2014 €'000
Balance at 1 January	-	-	-	-
Recognised in Income Statement	714	-	714	-
Balance at 31 December	714	-	714	-

At the balance sheet date, the Company has unused tax losses of €350m (2014: €350m) and other temporary differences of €29m available for offset against future profits. A deferred tax asset has been recognised on gross temporary differences of €3.6m (2014: €nil). No deferred tax asset has been recognised in respect of the remaining €350m (2014: €350m) of losses and €25m of other temporary differences at the balance sheet date due to insufficient certainty with respect to availability of suitable future profits.

11. CASH AND BALANCES AT CENTRAL BANKS

	2015 €'000	2014 €'000
Cash	1,662	1,179
Balances with central banks	764,810	186,194
	766,472	187,373

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

12. DUE FROM BANKS

	2015 €'000	2014 €'000
Current accounts	163,227	249,659
Time deposits	301,465	388,160
Due from banks before impairment	464,692	637,819
Impairment loss allowances	-	-
	464,692	637,819
Amounts above include:		
Due from parent company	12,189	13,810
Due from fellow subsidiaries	5,125	7,980

13. FAIR VALUE THROUGH PROFIT OR LOSS

	2015 €'000	2014 €'000
Held for trading – bonds (quoted)	375,240	541,464
	375,240	541,464

14. LOANS AND ADVANCES TO CUSTOMERS

	2015 €'000	2014 €'000
Discounted bills	85,950	209,283
Corporate loans	1,227,157	1,396,756
Other advances	56,058	46,901
Total before impairment	1,369,165	1,652,940
Impairment loss allowances (note 16)	(52,436)	(177,542)
	1,316,729	1,475,398

15. FINANCIAL INVESTMENTS

	2015 €'000	2014 €'000
Available-for-sale financial investments	523,214	422,522
Bonds	523,214	422,522

	2015 €'000	2014 €'000
Held to maturity financial investments – bonds		
Gross carrying amount	75,709	52,489
Impairment loss allowances (note 16)	(17,525)	(17,015)
	58,184	35,474

16. IMPAIRMENT LOSS ALLOWANCES

	2015 €'000	2014 €'000
As at 1 January	194,557	184,563
Charged to income statement	4,416	10,136
Recoveries/releases during the year	(1,770)	(9,284)
Amounts written off	(128,156)	(3,043)
Translation adjustments	914	12,185
	69,961	194,557

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

16. IMPAIRMENT LOSS ALLOWANCES (CONTINUED)

2015	Gross carrying amount €'000	Impairment loss allowance €'000	Net carrying amount €'000
Due from banks	464,692	-	464,692
Loans and advances to customers	1,369,165	(52,436)	1,316,729
Held to maturity assets	75,709	(17,525)	58,184
Available for sale assets	523,214	-	523,214
	2,432,780	(69,961)	2,362,819

2014	Gross carrying amount €'000	Impairment loss allowance €'000	Net carrying amount €'000
Due from banks	836,041	-	836,041
Loans and advances to customers	1,652,940	(177,542)	1,475,398
Held to maturity assets	52,489	(17,015)	35,474
Available for sale assets	422,522	-	422,522
	2,963,992	(194,557)	2,769,435

The policy on impairment measurement is provided in the accounting policies note 1(e) and details of the methodology in note 32. Impairment loss allowance includes collective impairment of €17.8m (2014: €17.3m).

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

17. DERIVATIVES

The Company's objectives and policies on managing the risks that arise in connection with derivatives are included in note 1(i) and note 32.

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 the Company's exposure to credit or price risks.

The Company enters into the following main types of derivative contracts:

Swaps

These are over-the-counter (OTC) agreements between two parties to exchange periodic payments of interest, or payments for a related index, over a set period based on notional principal amounts.

The Company enters into interest rate swaps, exchanging fixed rates for floating rates of interest based on notional amounts.

Interest rate futures

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

Currency forward contracts

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

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.

Derivative financial instruments held or issued for trading purposes

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

Derivative financial instruments held or issued for hedging purposes

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

17. DERIVATIVES (CONTINUED)

The fair values and notional amounts of derivative instruments are set out in the following table:

	Notional €'000	2015 FV Asset €€000	FV Liability €€000	Notional €€'000	2014 FV Asset €€'000	FV Liability €€'000
Derivatives held for trading						
Interest rate swaps	458,652	7,068	9,930	445,225	7,305	11,371
Interest rate futures	41,315	-	86	150,326	250	9
Currency forward contracts	593,041	5,808	1,904	474,403	3,009	4,815
	1,093,008	12,876	11,920	1,069,954	10,564	16,195
Derivatives used as fair value hedges						
Interest rate swaps	369,133	455	3,952	269,768	157	6,306
Total recognised derivative assets and liabilities	1,462,141	13,331	15,872	1,339,722	10,721	22,501

Fair value hedges

Fair value hedges are used by the Company to protect it against changes in the fair value of financial assets and financial liabilities due to movements in interest rates. The financial instruments hedged for interest rate risk include fixed rate loans, available-for-sale debt securities and other borrowed funds. The Company uses interest rate swaps and interest rate futures to hedge interest rate risk.

Gains or losses due to changes on fair value hedges for the year:

	2015 €'000	2014 €'000
Gains/(losses) on:		
Hedging instrument	2,043	(671)
Hedged item attributable to the hedged risk	(1,944)	1,073
Hedge ineffectiveness	99	402

18. INVESTMENT IN SUBSIDIARIES

Name	Place of incorporation	Proportion of ownership and voting power held	Principal activity	Cost 2015	Cost 2014
13-15 Moorgate No. 1 Limited	England and Wales	100%	General partner to property partnership	£12.7m	£12.7m
13-15 Moorgate No.2 Limited	England and Wales	100%	General partner to property partnership	£12.7m	£12.7m
EAB Client Assets Nominee Limited	England and Wales	100%	Dormant	£100	£100

Movement in value of investment in subsidiaries

	2015 €'000	2014 €'000
As at 1 January	32,637	31,016
Reduction on liquidation of subsidiary	-	(600)
Translation adjustments	1,842	2,221
As at 31 December	34,479	32,637

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

19. OTHER INTANGIBLE ASSETS

	2015 €'000	2014 €'000
Software		
Cost		
As at 1 January	-	-
Additions	1,182	-
As at 31 December	1,182	-
Amortisation		
As at 1 January	-	-
Charge for the year	(133)	-
As at 31 December	1,182	-
Net book value		
As at 1 January	-	-
As at 31 December	1,049	-

20. PROPERTY, PLANT AND EQUIPMENT

	Land €'000	Freehold and Leasehold Improvements €'000	Furniture fixtures and fittings €'000	Computer and communication equipment €'000	Motor vehicles €'000	Total €'000
Cost						
As at 1 January 2014	290	6,684	976	10,069	53	18,072
Additions	-	84	61	17	-	162
Disposals	-	-	-	-	(53)	(53)
At 31 December 2014	290	6,768	1,037	10,086	-	18,181
Accumulated depreciation and impairment losses						
As at 1 January 2014	-	(4,056)	(976)	(8,068)	(53)	(13,153)
Depreciation	-	(467)	(25)	(967)	-	(1,459)
Disposals	-	-	-	-	53	53
At 31 December 2014	-	(4,523)	(1,001)	(9,035)	-	(14,559)
Net book value	290	2,245	36	1,051	-	3,622
Cost						
As at 1 January 2015	290	6,768	1,037	10,086	-	18,181
Additions	-	316	16	229	-	561
Disposals	-	(11)	(75)	(256)	-	(342)
At 31 December 2015	290	7,073	978	10,059	-	18,400
Accumulated depreciation and impairment losses						
As at 1 January 2015	-	(4,523)	(1,001)	(9,035)	-	(14,559)
Depreciation	-	(480)	(18)	(640)	-	(1,138)
Disposals	-	9	74	254	-	337
At 31 December 2015	-	(4,994)	(945)	(9,421)	-	(15,360)
Net book value	290	2,079	33	638	-	3,040

21. OTHER ASSETS

	2015 €'000	2014 €'000
Prepayments	2,217	3,580
Accrued interest receivable	13,922	12,553
Other assets and receivables	3,853	4,451
	19,992	20,584
Amounts above include:		
Due from parent company	1,115	1,348
Due from fellow subsidiaries	711	352

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

22. RETIREMENT BENEFITS – DEFINED BENEFIT SCHEME

The Bank sponsors the plan which is a funded defined benefit arrangement. This is a separate trustee administered fund holding the pension plan assets to meet long term pension liabilities for some 435 past and 23 present employees as at 1 January 2013. The level of retirement benefit is principally based on salary earned in the last three years of employment prior to leaving active service and is linked to changes in inflation up to retirement.

The scheme is subject to the funding legislation, which came into force on 30 December 2005, outlined in the Pensions Act 2004. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension plans in the UK.

The trustees of the scheme are required to act in the best interest of the plan's beneficiaries. The appointment of the trustees is determined by the plan's trust documentation. It is policy that one third of all trustees should be nominated by the members.

A full actuarial valuation was carried out as at 1 January 2013 in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of the plan is agreed between the Bank and the trustees in line with those requirements. These in particular require the deficit to be calculated using prudent, as opposed to best estimate actuarial assumptions.

The 2013 actuarial valuation showed a deficit of £9.3m. The Bank has agreed with the trustees that it will aim to eliminate the deficit over a period of 8 years from 1 January 2016 by the payment of annual contributions of £1.1m in respect of the deficit. In addition and in accordance with the actuarial valuation, the Bank has agreed with the trustees that it will meet expenses of the scheme and levies to the Pension Protection Fund.

For the purposes of IAS19, the results of the actuarial valuation as at 1 January 2013, which was carried out by a qualified independent actuary, have been updated on an approximate basis to 31 December 2015. There have been no changes in the valuation methodology adopted for this period's disclosures compared to the previous period's disclosures.

As a result of the 1 January 2013 valuation, the trustees secured the current pensioner liabilities through the purchase of an annuity policy held in the name of the trustees. The liabilities are included in the disclosures below and the assets have been taken as being equal to the value of the liabilities secured. The plan closed to future accrual on 31 July 2013. The annuities were purchased in 2014 and this has been reflected in the return on assets.

(a) Amounts for the current and previous periods

	2015 €'000	2014 €'000	2013 €'000	2012 €'000	2011 €'000
Defined benefit obligation	(76,959)	(74,055)	(60,176)	(59,060)	(54,596)
Fair value of plan assets	66,615	64,227	58,027	56,490	49,558
Net deficit	(10,344)	(9,828)	(2,149)	(2,570)	(5,038)
Net liability recognised	(10,344)	(9,828)	(2,149)	(2,570)	(5,038)

(b) Changes in the present value of defined benefit obligation

	2015 €'000	2014 €'000
Balance as at 1 January	74,055	60,176
Current service cost	-	-
Interest cost	2,819	2,925
Actuarial (gains)/losses	(1,390)	9,118
Benefits paid	(2,726)	(2,564)
Past service costs	-	-
Curtailment losses	-	-
Translation adjustments	4,201	4,400
Balance as at 31 December	76,959	74,055

(c) Changes in the fair value of plan assets

	2015 €'000	2014 €'000
Balance as at 1 January	64,227	58,027
Interest Income	2,439	2,922
Employer contributions	-	4,233
Return on assets excluding interest income	(970)	5,794
Benefits paid	(2,726)	(2,564)
Loss due to buy-in of pensioners	-	(8,425)
Translation adjustments	3,645	4,240
Balance as at 31 December	66,615	64,227

The actual return on plan assets for the year ended 31 December 2015 was €1.4m (2014: €8.7m).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

22. RETIREMENT BENEFITS – DEFINED BENEFIT SCHEME (CONTINUED)

d) Total expense recognised in the income statement

	2015 €'000	2014 €'000
Current service cost	-	-
Past service costs and settlements	-	-
Net interest cost	380	2
	380	2

(e) Total amount included in other comprehensive income

	2015 €'000	2014 €'000
Return on plan assets (excluding amounts included in net interest cost)	(970)	(2,631)
Experience gains/(losses)	159	(40)
Effects of change in demographic assumptions	650	82
Effects of change in financial assumptions	582	(9,160)
Translation adjustments	-	153
	421	(11,596)

(f) Assets

	2015 €'000	2014 €'000
UK Equities	13,089	12,641
Corporate bonds	19,403	19,056
Cash	7	6
Index linked Gilts	7,309	7,182
Property	7,124	6,030
Insured Assets	19,683	19,312
Balance as at 31 December	66,615	64,227

(g) Principal assumptions

	2015 %	2014 %
Discount rate	3.86	3.61
Expected rate of salary increases	N/A	N/A
Expected rate of inflation (RPI)	3.2	2.85
Expected rate of inflation (CPI)	2.2	1.85
Allowance for commutation of pension for cash at retirement		20% of pension

The mortality assumptions adopted imply the following life expectancies:

	Life expectancy at age 65 (years)
Male retiring in 2015	21.7
Female retiring in 2015	24.0
Male retiring in 2035	23.0
Female retiring in 2035	25.5

(h) Sensitivity

	Change in assumption	Change in liabilities
Discount rate	Decrease of 0.25% p.a.	Increase by 4.7%
Rate of inflation	Increase of 0.25% p.a.	Increase by 2.7%
Rate of mortality	Increase of life expectancy of 1 year	Increase by 2.4%
Commutation	Members commute an extra 10% of Post A Day pension on retirement	Decrease by 0.6%

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation and pension increases.

The average duration of the defined benefit obligation at the period ended 31 December 2015 is 19 years.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

22. RETIREMENT BENEFITS – DEFINED BENEFIT SCHEME (CONTINUED)

The scheme typically exposes the Bank to actuarial risks such as investment risk, interest rate risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to plan liabilities. This would detrimentally impact the balance sheet position and may give rise to increased charges in future P&L accounts. This effect would be partially offset by an increase in the value of the plan's bond holdings. Additionally, caps on inflationary increases are in place to protect the plan against extreme inflation.

The best estimate of contributions to be paid by the bank to the plan for the period commencing 1 January 2016 is £1.1m.

23. DUE TO BANKS

	2015 €'000	2014 €'000
Due to other banks	1,154,661	832,385
	1,154,661	832,385
Amounts above include:		
Due to parent company	575,925	292,203
Due to fellow subsidiaries	20,897	81,659

24. CUSTOMER ACCOUNTS

	2015 €'000	2014 €'000
Due to customers	1,831,925	1,968,469
	1,831,925	1,968,469
Amounts above include:		
Due to subsidiaries	4,743	3,658

25. OTHER LIABILITIES

	2015 €'000	2014 €'000
Accruals	15,476	13,204
Deferred income	1,618	2,381
Accrued interest payable	4,382	4,180
Other payables and liabilities	806	2,866
	22,282	22,631
Amounts above include:		
Due to parent company	358	808
Due to fellow subsidiaries	7	19

Defaults and breaches

There have been no defaults or breaches in terms or payments of loans payable during the year.

26. SUBORDINATED LIABILITIES

	2015 €'000	2014 €'000
USD 251.785 million floating rate notes		
LIBOR plus 0.35%	93,449	84,071
LIBOR plus 0.50%	137,716	123,895
	231,165	207,966

The Notes are perpetual, subordinated to all other creditors and are listed on the Channel Islands Stock Exchange. The Notes are subscribed by Arab Bank plc and Arab Bank (Switzerland) Ltd. The Notes count as upper Tier 2 capital for the Company's regulatory capital base.

27. SHARE CAPITAL

	2015 €'000	2014 €'000
Issued share capital:		
50,000 (2014 - 50,000) deferred shares of £1 each	72	72
609,925,540 (2014 - 609,925,540) fully paid ordinary shares of €1 each	609,926	609,926
As at 31 December	609,998	609,998

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

28. CONTINGENT LIABILITIES AND COMMITMENTS

In the ordinary course of business, the Company enters into transactions which expose it to tax, legal and business risks. Provisions are made for known liabilities which are expected to materialise. Contingent obligations and banking commitments, which the Company has entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities.

	2015 €'000	2014 €'000
Letters of credit	88,972	81,494
Acceptances	5,101	4,491
Guarantees given to third parties	1,999,029	1,785,527
Unused credit facilities and forward contract trades	154,007	167,749
	2,247,109	2,039,261

Letters of credit, acceptances and guarantees commit the Company to make payments on behalf of customers in the event of a specific act including relating to imports and exports of goods.

Unused credit facilities and forward contract trades refer to commitments to make loans and revolving credits.

Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. The potential credit loss is less than the total commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Company monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Operating lease commitments

Where the Company is the lessee, the future minimum lease payments under non-cancellable building operating leases are as follows:

	2015 €'000	2014 €'000
Less than one year	2,332	651
Between one and two years	1,795	1,074
Between two and three years	1,644	1,009
Between three and four years	1,644	406
Between four and five years	1,644	406
More than five years	2,767	2,638
Total commitments payable	11,826	6,184

The Company leases various offices, branches and other premises under non-cancellable operating lease arrangements. The leases have various terms, escalation and renewal rights at the prevailing market rates. There are no contingent rents payable. The Company also leases equipment under non-cancellable lease arrangements.

29. RELATED PARTY DISCLOSURE, INCLUDING DIRECTORS' EMOLUMENTS

The immediate and ultimate controlling party of the Company and the parent of the smallest and the largest company into which the results of the Company are consolidated is Arab Bank plc, a company incorporated in Jordan. Details of transactions between the Company and related parties are disclosed below.

(a) Trading transactions

During the year, the Company entered into the following trading transactions with related parties:

	Interest, fees & other income received		Interest, fees & other expense paid		Amounts owed by related parties		Amounts owed to related parties		Guarantees, acceptances & letters of credit	
	2015 €'000	2014 €'000	2015 €'000	2014 €'000	2015 €'000	2014 €'000	2015 €'000	2014 €'000	2015 €'000	2014 €'000
Parent company	192	315	1,847	2,315	12,189	13,810	575,953	291,389	42,076	44,282
Subsidiaries	-	-	-	-	-	-	4,743	3,658	-	-
Fellow subsidiaries*	34	1	1,235	963	5,125	7,980	20,897	82,473	13,822	13,041
Associates**	114	205	24	111	1,068	838	2,240	13,532	278	2,323
	340	521	3,106	3,389	18,382	22,628	603,833	391,052	56,176	59,646

* Fellow subsidiaries include subsidiaries of parent company, Arab Bank plc.

** Associates include entities where the parent company, Arab Bank plc, has a significant influence over the financial and operating policy decisions, and in which it holds between 20% and 50% of the voting rights.

The above transactions were unsecured and settled in cash. In addition, the transactions were typically made in the ordinary course of business and substantially on the same terms as for comparable transactions with third party counterparties. The expense recognised in the year for bad or doubtful debts in respect of the amounts owed by a related party was €nil (2014: €nil).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

29. RELATED PARTY DISCLOSURE, INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

(b) Compensation of key management personnel

The remuneration of Directors and other members of key management during the year were as follows:

	2015 €'000	2014 €'000
Key management compensation		
Short-term employee benefits	5,689	4,457
Post-employment benefits	421	363
	6,110	4,820

The information above includes executive Directors' remuneration detailed below.

	2015 €'000	2014 €'000
Directors' emoluments		
Chairman and Executive Directors - emoluments	1,953	1,727
- retirement and termination benefits	143	127
	2,096	1,854
Non-Executive Directors - emoluments	289	320
Number of Directors accruing benefits under retirement benefit schemes	2	2

The emoluments of the highest paid Director including pension and social security contributions amounted to €1,209,671 (2014: €1,065,212).

Transactions with key management personnel and each of their connected persons

Directors, other key management personnel and their connected persons have undertaken the following transactions with the Company in the normal course of banking business.

	No. of persons	2015 €'000	No. of persons	2014 €'000
Loans	8	48	7	27
Deposits	1	253	1	228

The transactions with key management personnel and their connected persons were transacted in the normal course of business with terms prevailing for comparable transactions and on the same terms and conditions applicable to other employees of the Company.

30. FAIR VALUES OF FINANCIAL INSTRUMENTS

The table below provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. This category comprises debt securities where observable prices are available in the market.
- Level 2 fair value measurements are those derived from quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data. This category comprises instruments such as interest rate swaps and forward currency contracts, valued using data such as yield curves and exchange rates, requiring little management judgement; and
- Level 3 fair value measurements are those derived from valuation techniques using significant unobservable inputs. Where the fair value cannot be reliably determined for an investment in equity instrument, the instrument is measured at cost.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

30. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	2015 Level 1 €'000	2015 Level 2 €'000	2015 Level 3 €'000	2015 Total €'000
Financial assets at fair value through profit or loss				
- Held for trading	375,240	-	-	375,240
- Designated	-	-	-	-
Derivative financial instruments – assets	-	13,331	-	13,331
Financial investments				
- Available for sale	523,214	-	-	523,214
Investment in subsidiaries	-	-	34,479	34,479
Total	898,454	13,331	34,479	946,264
Derivative financial instruments – liabilities	-	15,872	-	15,872
Total	-	15,872	-	15,872

	2014 Level 1 €'000	2014 Level 2 €'000	2014 Level 3 €'000	2014 Total €'000
Financial assets at fair value through profit or loss				
- Held for trading	541,464	-	-	541,464
- Designated	-	-	-	-
Derivative financial instruments – assets	-	10,721	-	10,721
Financial investments				
- Available for sale	422,522	-	-	422,522
Investment in subsidiaries	-	-	32,637	32,637
Total	963,986	10,721	32,637	1,007,344
Derivative financial instruments – liabilities	-	22,501	-	22,501
Total	-	22,501	-	22,501

Reconciliation of Level 3 fair value measurements of financial assets

	2015 €'000	2014 €'000
Balance at 1 January	32,637	31,016
Net additions and settlements	-	(600)
Fair value gain in income statement	-	-
Translation adjustment	1,842	2,221
Balance at 31 December	34,479	32,637

For financial assets and liabilities carried at amortised cost, the Directors do not anticipate the fair values to be materially different from the book values considering the underlying nature of the portfolios except for the following:

	2015 Fair value €'000	2015 Book value €'000	2014 Fair value €'000	2014 Book value €'000
Financial investments – held to maturity at initial recognition	43,110	58,184	30,144	35,474
Total	43,110	58,184	30,144	35,474

The Company did not hold any material compound instruments or embedded derivatives at the year end (2014: €nil).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

31. OPERATING SEGMENTS

For management purposes, the Company is organised into three strategic business units based on products and services as follows:

- Corporate & Institutional Banking ("CIB"): principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
- Treasury: principally handling funding and liquidity for the Company. The main focus is on money markets, foreign exchange and capital markets. Treasury also provides risk management and structured product solutions for customers of other segments of the Company.
- Private Banking: principally providing high net worth clients with personal banking services tailored to their needs. Key products include deposits, loans, overdrafts, credit cards facilities, funds transfer facilities, structured investment products and offshore banking facilities.
- Other: includes items that are not allocated to the business units.

Management monitors the operating results of each of the business units separately for the purpose of performance assessment. Certain items of revenue and costs are managed on a central basis and are not allocated to business units. Interest or similar income is reported net. Management primarily relies on net interest revenue, not the gross interest revenue and expense amounts. No revenue transactions with a single nonrelated customer or counterparty amounted to 10% or more of the total revenue of the Company in 2015 or 2014.

2015	CIB €'000	Treasury €'000	Private Banking €'000	Other €'000	Total €'000
Net operating income	48,935	1,562	2,259	(467)	52,289
Inter-segment revenue	(5,707)	817	4,155	735	-
Total operating revenue	43,228	2,379	6,414	268	52,289
Net business unit contribution	23,467	(4,717)	(4,585)	(4,440)	9,725
Impairment loss expense	(2,646)	-	-	-	(2,646)
Profit/(loss) before tax	20,821	(4,717)	(4,585)	(4,440)	7,079
Tax credit/(expense)	290	-	-	-	290
Profit/(loss) for the year	21,111	(4,717)	(4,585)	(4,440)	7,369

2014	CIB €'000	Treasury €'000	Private Banking €'000	Other €'000	Total €'000
Net operating income	45,944	2,561	1,314	1,040	50,859
Inter-segment revenue	(4,653)	946	3,450	257	-
Total operating revenue	41,291	3,507	4,764	1,297	50,859
Net business unit contribution	21,284	(3,820)	(7,828)	119	9,755
Impairment loss expense	(851)	-	-	-	(851)
Profit/(loss) before tax	20,433	(3,820)	(7,828)	119	8,904
Tax expense	(64)	-	-	-	(64)
Profit/(loss) for the year	20,369	(3,820)	(7,828)	119	8,840

The assets and liabilities held by the business units of the Company are detailed below:

2015	CIB €'000	Treasury €'000	Private Banking €'000	Other €'000	Total €'000
Segment assets	1,478,745	1,979,192	89,135	30,064	3,577,136
Segment liabilities	1,110,385	689,373	1,431,890	34,873	3,266,521

2014	CIB €'000	Treasury €'000	Private Banking €'000	Other €'000	Total €'000
Segment assets	1,743,253	1,523,414	68,981	31,966	3,367,614
Segment liabilities	952,379	550,765	1,339,056	225,579	3,067,779

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

32. RISK MANAGEMENT POLICIES

The Company's risk appetite is approved by the Board of Directors, and defines the types and amounts of risk that the Company is willing to take in pursuit of its business strategy. This is reviewed regularly and provides qualitative statements and quantitative measures to assist with the monitoring of risk appetite.

The Company's risks are managed taking into account the following principles:

- Risk management accountability rests with each department concerned;
- There is independent and effective risk control and assurance;
- The process is underpinned by comprehensive, proportionate, transparent and objective disclosure of risk exposures to senior management, the Board of Directors, oversight committees, regulators, rating agencies, Arab Bank Group and other stakeholders;
- Capital, liquidity and earnings are protected by the effective controlling of the risk exposures across all material risk types and businesses; and
- A strong ethical and risk culture is maintained so that risk awareness is embedded into all activities.

The Company maintains high standards of internal controls, with clear accountabilities for risk management, applying a governance model which enables oversight and management of risks.

The Board of Directors has an established Committee of the Board, the Board Audit & Risk Committee, to assist the Board of Directors in fulfilling its oversight responsibilities. The function of the Board Audit & Risk Committee is to encourage and safeguard the highest standards of integrity, financial reporting, risk management and internal control on behalf of the Board of Directors.

The Chief Risk Officer ("CRO") is a senior executive who works closely with the Chief Executive Officer ("CEO"), and liaises with the Board of Directors through the Board Audit & Risk Committee. The CRO is responsible for ensuring that effective best practice risk mitigation is in place in the Company. The CRO is tasked with taking a comprehensive view of risks that might impact on the Company, embedding an effective EAB Risk Management (ERM) Framework into the overall strategy and operations, and continually strengthening the Company's approach to risk management.

EAB's risk governance is predicated on the industry standard three lines of defence model. Line One includes the Strategic Business Units and Support Units and has the responsibility for risk management. Line Two is responsible for risk control, providing independent oversight, control and challenge of risk and compliance issues, and includes Risk, Legal and Compliance. Line Three is Internal Audit and is responsible for risk assurance, providing confirmation that Lines One and Two are operating effectively and in accordance with the stipulated risk governance arrangements. The roles and responsibilities of the Risk function in Line Two are further defined under three headings: Control, Challenge and Coordination.

The information in note 32 to note 37 describes the main banking risks, committees with responsibility for these risks and the policies of the Company to manage them. The Directors are confident that the current risk management structure is sufficient for identification, monitoring and control of significant financial risks to the Company at present.

33. CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company 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 Executive Credit Committee is responsible for approving credit recommendations and making other credit decisions in accordance with the delegated lending authorities within the Credit Policy Manual. This includes decisions on individual credits, and reviewing and making recommendations above the delegated authorities, to the Board Panel, which consists of the Chairman, Chief Executive Officer and a Non-Executive Director.

The Company'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, the Company will concentrate in those areas in which it has a competitive advantage, knowledge of the particular market and a good understanding of the commercial and political risks involved within those markets. Management of limits is performed daily through exceptions reports.

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

The Board of Directors approves the Credit Policy Manual and any interim amendments.

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

Impairment

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

33. CREDIT RISK (CONTINUED)

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

- Significant financial difficulty of the borrower;
- A breach of contract such as a default or delinquency in payment of interest or principal;
- Forbearance, where the Company, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that it would not otherwise consider;
- It becoming probable that the borrower will enter insolvency or other financial reorganisation;
- The disappearance of an active market because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows.

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

Quality of assets

31 December 2015	Cash, balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Total €'000
Neither past due or impaired	1,231,164	1,320,937	947,113	13,331	3,512,545
Past due or individually impaired	-	48,228	27,049	-	75,277
Gross	1,231,164	1,369,165	974,162	13,331	3,587,822
Less: allowance for specific impairment	-	(34,625)	(17,524)	-	(52,149)
Less: allowance for collective impairment	-	(17,811)	-	-	(17,811)
Net	1,231,164	1,316,729	956,638	13,331	3,517,862

31 December 2014	Cash, balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Total €'000
Neither past due or impaired	825,192	1,487,380	990,445	10,721	3,313,738
Past due or individually impaired	-	165,560	26,030	-	191,590
Gross	825,192	1,652,940	1,016,475	10,721	3,505,328
Less: allowance for specific impairment	-	(160,281)	(17,015)	-	(177,296)
Less: allowance for collective impairment	-	(17,261)	-	-	(17,261)
Net	825,192	1,475,398	999,460	10,721	3,310,771

Financial assets split by external ratings, where available, for 2015:

	Cash, balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Total €'000
Rated entities					
AAA to AA-	850,723	-	518,725	109	1,369,557
A+ to A-	260,352	55,592	279,922	16	595,882
BBB+ to B-	95,500	7,902	132,717	9,056	245,175
Unrated	24,589	1,253,235	25,274	4,150	1,307,248
	1,231,164	1,316,729	956,638	13,331	3,517,862

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

33. CREDIT RISK (CONTINUED)

Quality of assets (continued)

Financial assets split by external ratings, where available, for 2014:

	Cash, balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Total €'000
Rated entities					
AAA to AA-	322,549	824	673,324	581	997,278
A+ to A-	474,175	130,676	220,807	3,267	828,925
BBB+ to B-	26,886	200,394	89,090	2,527	318,897
Unrated	1,582	1,143,504	16,239	4,346	1,165,671
	825,192	1,475,398	999,460	10,721	3,310,771

Loans and advances to customers split by Company's internal credit rating system:

	2015 €'000	2014 €'000
1 - 3 - investment grade	349,141	413,771
4 - 5 - standard monitoring	723,505	711,938
6 - special monitoring	196,774	307,258
7 - watch	41,467	37,155
8 - 10 - classified	5,842	5,276
Total	1,316,729	1,475,398

Internal ratings are highly correlated to the external ratings but also take into account other behavioural aspects of the counterparty and historical performance.

Concentration of Risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected by changes in economic, political or other conditions. The Company monitors credit concentration risk through the Executive Risk and Compliance Committee and in turn reports material exposures and concerns to the Board Audit and Risk Committee and the Board of Directors.

Industrial exposure to financial assets and credit related contingent liabilities and commitments as at 31 December 2015:

	Cash balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Contingent liabilities and commitments €'000	Total €'000
Central and local government	766,472	23,690	161,742	-	57,021	1,008,925
Financial institutions	464,692	40,993	715,199	9,181	202,035	1,432,100
Individual	-	52,302	-	-	45	52,347
Industrial and commercial	-	1,199,744	79,697	4,150	1,988,008	3,271,599
	1,231,164	1,316,729	956,638	13,331	2,247,109	5,764,971

Industrial exposure to financial assets and credit related contingent liabilities and commitments as at 31 December 2014:

	Cash balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Contingent liabilities and commitments €'000	Total €'000
Central and local government	186,198	30,832	231,346	-	128,797	577,173
Financial institutions	638,994	188,306	722,872	6,389	210,664	1,767,225
Individual	-	46,241	-	-	58	46,299
Industrial and commercial	-	1,210,019	45,242	4,332	1,699,742	2,959,335
	825,192	1,475,398	999,460	10,721	2,039,261	5,350,032

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

33. CREDIT RISK (CONTINUED)

Concentration of Risk (continued)

Geographical exposure to financial assets and credit related contingent liabilities and commitments as at 31 December 2015:

	Cash balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Contingent liabilities and commitments €'000	Total €'000
UK	20,792	372,780	90,740	4,822	68,522	557,656
Europe	916,633	112,860	588,464	2,065	1,467,886	3,087,908
Arab Countries	49,276	831,001	203,597	6,444	286,675	1,376,993
North America	135,554	88	-	-	406,338	541,980
Asia	108,909	-	45,759	-	7,158	161,826
Other	-	-	28,078	-	10,530	38,608
	1,231,164	1,316,729	956,638	13,331	2,247,109	5,764,971

Geographical exposure to financial assets and credit related contingent liabilities and commitments as at 31 December 2014:

	Cash balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Contingent liabilities and commitments €'000	Total €'000
UK	15,350	381,600	49,385	3,643	69,272	519,250
Europe	397,901	144,738	700,947	205	1,264,816	2,508,607
Arab Countries	66,933	946,822	163,444	6,873	299,526	1,483,598
North America	234,735	53	-	-	360,907	595,695
Asia	110,269	2,178	62,666	-	29,873	204,986
Other	4	7	23,018	-	14,867	37,896
	825,192	1,475,398	999,460	10,721	2,039,261	5,350,032

Credit derivatives and collateral

The Company did not hold any credit derivatives during the year (2014: €nil) to reduce the exposure to credit risk on any of the instruments.

The Company accepts certain forms of collateral subject to legal review and appropriate documentation in accordance with the Credit Policy Manual. As a principle, assets held as collateral in favour of the Company must be sufficiently liquid and their value over time sufficiently stable to provide the Company with acceptable certainty as to the value of the risk mitigation upon which it relies. Exceptions have to be approved through the credit process.

The Credit Department keeps a comprehensive record of collateral received. The Company primarily accepts the following forms of collateral, subject to meeting the necessary legal requirements:

- Cash;
- Support instruments including bank, corporate and personal guarantees;
- Debt securities subject to meeting the external and/or internal rating criteria;
- Equities from companies within European Economic Area ("EEA") subject to rating, listing and liquidity requirements;
- Property, residential and/or commercial situated within EEA states or the MENA region subject to meeting the specified criteria; or
- Other security including trade and other receivables, stocks and inventories, plant and machinery and specialised assets such as aircraft and ships, etc.

The Credit Department is responsible for regular updates to the valuation of the underlying collateral as required by the Credit Policy Manual. The documentation entered into with the obligor specifies the Company's rights and ability to liquidate the collateral, if required. The Executive Credit Committee is responsible for decisions regarding liquidation or appropriation of collateral based on recommendations from the Head of Credit and advice from the Legal Department.

During the year, there was no possession of underlying collateral by the Company.

The carrying amount of financial assets recorded in the balance sheet, net of any allowances for losses, represents the Company's maximum exposure to credit risk without taking account of any collateral obtained. The fair value of collateral and security enhancements held against loans or advances to customers is shown below:

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

33. CREDIT RISK (CONTINUED)

Credit derivatives and collateral (continued)

	2015 €'000	2014 €'000
Collateral type		
Cash collateral	56,345	39,044
Guarantees	211,039	244,541
Residential real estate	87,355	68,400
Commercial real estate	287,821	266,310
Equity and debt securities	77,003	49,592
Other collateral	15,938	63,077
	735,501	730,964

Offseting of financial assets and liabilities
The Company does not regularly use netting agreements except those embedded within the ISDA agreements, plus specific netting agreements with certain Arab Bank Group entities largely for contingent facilities.

34. MARKET RISK

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Risks are managed individually through the use of limits and restricting product exposures. The Asset & Liability Committee ("ALCO") sets and monitors the market risk limits and meets once a month but receives risk reports regularly. The Committee is also convened whenever the business encounters heightened market risk conditions.

(a) Interest Rate Risk Management

The Company are exposed to interest rate risk as entities in the Company borrow / lend funds at both fixed and floating interest rates.

The Company identifies the following types of interest rate risk:

- Re-pricing Risk - This risk results from differences between the timing of interest rate fixings for assets and liabilities.
- Yield Curve Risk - This risk arises from changes in the shape and slope of the yield curve.
- Other Risks - Other risks that do not apply to the Company but that may become relevant in the future include Basis Risk (arising from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics); Optionality Risk (arising from the options embedded in bank assets, liabilities and off- balance sheet portfolios); and Reinvestment Risk (arising from changing interest rates generating increasing interest costs but not increasing interest revenues).

The interest rate risks that have been identified can have an impact on both the earnings and economic value of the Company and as a consequence the Board of Directors seeks to manage these risks to ensure the achievement of its business objectives.

The ALCO manages interest rate risk by the establishment of a Market Risk Policy that reflects the overall risk appetite. The overall risk appetite is approved by the Board of Directors and reviewed regularly.

The ALCO manages interest rate risk through the use of:

- List of permitted products
- Interest Rate Risk Limits: a maximum Basis Point Value amount (segmented into sub-limits by major currency and time bucket).
- A suite of stress tests that models changes to yield curves both in absolute terms and in terms of changes to the shapes of the curves.

The day-to-day management of interest rate risk lies with the Treasury team. The monitoring and reporting of interest rate risk on a daily basis is performed by an independent Treasury Valuation Control function that reports to the Head of Finance. The system of controls over interest rate risk is subject to oversight by the Market and Liquidity Risk Control team which reports to the Chief Risk Officer.

The following tables provide a summary of the interest rate re-pricing profile of the Company's assets and liabilities. Assets and liabilities have been allocated to time bands by reference to the earlier of the next interest rate reset date and the contractual maturity date. Financial assets and liabilities with a floating rate are exposed to cash flow interest rate risk, and this risk is reflected predominantly in the time bands below twelve months. Financial assets and liabilities with a fixed rate are exposed to fair value interest rate risk, which is reflected predominantly in the time bands beyond twelve months. Financial assets and liabilities not directly exposed to interest rate risk will appear in the non-interest bearing time band. The table does not take account of derivative financial instruments whose effect is to alter the interest basis of the Company's assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

34. MARKET RISK (CONTINUED)

(a) Interest Rate Risk Management (continued)

31 December 2015	Within 1mth €'000	1mth to 3mths €'000	3mths to 6mths €'000	6mths to 12mths €'000	1 to 3 years €'000	After 3 years €'000	Not tied to maturity €'000	Total €'000
Assets								
Cash and balances at central banks	734,093	-	-	-	-	-	32,379	766,472
Due from banks	252,016	48,787	666	-	-	-	163,223	464,692
Fair value through profit or loss								
- Held for trading	62,900	154,292	6,456	47,827	64,330	39,435	-	375,240
- Designated	-	-	-	-	-	-	-	-
Loans and advances to customers	425,061	332,389	355,531	1,617	132,069	63,796	6,266	1,316,729
Financial investments								
- Available for sale	71,047	86,494	61,798	6,173	169,534	128,168	-	523,214
- Held to maturity	8,078	9,524	-	-	40,582	-	-	58,184
Derivatives	10,417	2,592	245	77	-	-	-	13,331
Other assets	4,074	4,693	3,355	778	-	-	46,374	59,274
Total assets	1,567,686	638,771	428,051	56,472	406,515	231,399	248,242	3,577,136
Liabilities and equity								
Due to banks	486,858	326,933	56,973	77,403	-	-	206,494	1,154,661
Customer accounts	441,312	265,098	373,040	292,629	-	-	459,846	1,831,925
Derivatives	8,341	5,593	1,352	586	-	-	-	15,872
Other liabilities	895	963	1,653	886	380	333	27,788	32,898
Subordinated liabilities	-	-	-	-	-	-	231,165	231,165
Shareholders' equity	-	-	-	-	-	-	310,615	310,615
Total liabilities and equity	937,406	598,587	433,018	371,504	380	333	1,235,908	3,577,136
Interest rate sensitivity gap	630,280	40,184	(4,967)	(315,032)	406,135	231,066	(987,666)	

31 December 2014	Within 1mth €'000	1mth to 3mths €'000	3mths to 6mths €'000	6mths to 12mths €'000	1 to 3 years €'000	After 3 years €'000	Not tied to maturity €'000	Total €'000
Assets								
Cash and balances at central banks	176,000	-	-	-	-	-	11,373	187,373
Due from banks	344,258	33,206	596	1,552	-	-	258,207	637,819
Fair value through profit or loss								
- Held for trading	72,183	147,151	-	131,667	182,234	8,229	-	541,464
- Designated	-	-	-	-	-	-	-	-
Loans and advances to customers	547,967	412,943	279,478	51,011	86,094	97,905	-	1,475,398
Financial investments								
- Available for sale	51,039	111,489	-	44,184	201,734	14,076	-	422,522
- Held to maturity	8,827	9,015	-	8,138	9,494	-	-	35,474
Derivatives	7,780	2,484	332	125	-	-	-	10,721
Other assets	4,089	4,742	2,523	1,235	-	-	44,254	56,843
Total assets	1,212,143	721,030	282,929	237,912	479,556	120,210	313,834	3,367,614
Liabilities and equity								
Due to banks	302,059	164,095	97,364	108,624	-	-	160,243	832,385
Customer accounts	434,986	550,385	400,991	204,744	-	-	377,363	1,968,469
Derivatives	12,628	7,214	1,360	1,299	-	-	-	22,501
Other liabilities	1,032	1,362	1,300	901	256	247	27,702	32,800
Subordinated liabilities	-	-	-	-	-	-	207,966	207,966
Shareholders' equity	-	-	-	-	-	-	303,493	303,493
Total liabilities and equity	750,705	723,056	501,015	315,568	256	247	1,076,767	3,367,614
Interest rate sensitivity gap	461,438	(2,026)	(218,086)	(77,656)	479,300	119,963	(762,933)	

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

34. MARKET RISK (CONTINUED)

(b) Foreign Currency Risk Management

Most of the Company's activities fall into one of three currencies: EUR, GBP and USD. However, the Company has business interests in a number of different geographic regions and thus additional foreign currency positions are held.

The Company identifies foreign exchange rate risk as the risk to future cash-flows from adverse foreign exchange movements.

Foreign exchange rate risk can have an impact on both the earnings and economic value of the Company and as a consequence the Board of Directors seeks to manage these risks to ensure the achievement of its business objectives.

The ALCO manages foreign exchange rate risk by the establishment of a Market Risk Policy that reflects the overall risk appetite and which is approved by the Board of Directors and reviewed regularly.

The ALCO manages foreign exchange risk through the use of:

- List of permitted trading currencies;
- Foreign exchange trading limits - maximum daylight and overnight limits are set for both spot and forward foreign exchange trades;
- Foreign exchange stop loss limits - maximum limits are set per book for the time horizons of day, month and year; and
- A suite of stress tests that models changes to foreign exchange rates.

Management information systems are in place to measure foreign exchange risk, which is measured as the estimate of the exposures/liabilities accepted in non-Euro currencies which are not offset by a corresponding position or derivative transaction. The day-to-day management of foreign exchange risk lies with the Treasury team. The monitoring and reporting of foreign exchange risk on a daily basis is performed by an independent Treasury Valuation Control function that reports to the Head of Finance. The system of controls over foreign exchange risk is subject to oversight by the Market and Liquidity Risk Control team which reports to the Chief Risk Officer. Senior management receive market risk reports, including foreign exchange, and are notified immediately of any breaches of the foreign exchange limits.

Utilisation of foreign exchange limits is measured as the sum of the absolute Euro equivalent values of all non-Euro currency positions. Throughout the period the utilisation has not exceeded the limit.

The net carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

Currency	2015 CCY '000	2015 €'000	2014 CCY '000	2014 €'000
UAE Dirham	189	47	3	1
Australian Dollar	23	16	(22)	(15)
Bahraini Dinar	3	8	3	6
Canadian Dollar	3	2	(53)	(37)
Swiss Franc	3	3	(29)	(24)
Danish Kroner	(20)	(3)	(6)	(1)
Algerian Dinars	321	3	164	2
Egyptian Pounds	3	-	3	-
Euro	(1,079)	(1,079)	3,809	3,809
Sterling	3,952	5,377	(3)	(3)
Indian Rupee	-	-	-	-
Jordanian Dinar	12	16	8	9
Japanese Yen	1,914	15	3,242	22
Kuwaiti Dinar	3	9	(3)	(9)
Moroccan Dirham	24	2	4	-
Norwegian Kroner	(9)	(1)	(8)	(1)
New Zealand Dollars	4	3	(9)	(6)
Omani Rial	2	5	6	12
Qatari Riyals	188	47	1	-
Saudi Riyals	38	9	17	4
Swedish Kroner	68	7	7	1
Tunisian Dinar	8	5	19	9
Singapore Dollar	20	9	2	1
US Dollar	(201)	(185)	52	43
Yemen Riyals	15	-	15	-
Total utilisation of limit (excluding EUR balance)	-	5,394	-	13

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

34. MARKET RISK (CONTINUED)

(c) Sensitivity Analysis

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

- Reasonable changes in interest rates are considered based on internal reporting to key management personnel and different economic environments.
- The Company has measured the EUR equivalent of movements in interest rates for GBP, EUR and USD. The Company does not have a material exposure to changes in other foreign currency rates and foreign interest rates and as such sensitivity has 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.

	2015 Impact on Profit/(Loss) €'000	2014 Impact on Profit/(Loss) €'000
Interest rate sensitivity		
100bps increase in interest rate	1,487	1,737
100bps decrease in interest rate	(478)	(371)
25bps stepped increase to 100bps over 2 months	1,449	1,707
25bps stepped decrease to 100bps over 2 months	(478)	(371)

The impact on the Company's equity of the above was not considered material.

Foreign currency risk sensitivity

The net impact of changes in foreign exchange rates on the Company's foreign currency assets and liabilities, including derivative positions, at the reporting date are shown in the table below:

	2015 €'000	2014 €'000
EUR appreciates 10%	(2,359)	(1,667)
EUR appreciates 20%	(4,718)	(3,335)
EUR depreciates 10%	2,359	1,667
EUR depreciates 20%	4,718	3,335

35. LIQUIDITY RISK

The ultimate responsibility for liquidity risk management and for setting the Company's Liquidity Risk Appetite rests with the Board of Directors, with the ALCO having responsibility to build an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements on a day-to-day basis. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring actual, forecast and stressed cash flows and matching the maturity profiles of financial assets and liabilities.

The measurement, management and monitoring of Liquidity Risk in EAB incorporates liquidity policies, systems and controls that the Company have implemented to manage Liquidity Risk within tolerance levels approved by the Board of Directors. These incorporate a range of tools to calculate key liquidity metrics, measure and monitor these against risk appetite limits and stress test the Company's cash flows including its contingent liabilities.

The Company follows a conservative approach to liquidity risk, and maintains a liquid asset buffer of High Quality Liquid Assets as required by European Union (EU) regulation in addition to a portfolio of marketable securities which is held as a liquidity buffer if short-term funds are urgently needed.

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

The three categories are:

- Short-term tactical liquidity risk

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

- Structural liquidity risk

The risk that the Company'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 the Company experiences unexpected and/or acute liquidity shocks.

In order to achieve the above, the Company has identified several risk factors which form components of the Company's overall liquidity risk profile.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

35. LIQUIDITY RISK (CONTINUED)

These include but are not limited to:

Wholesale secured and unsecured funding risk

- Retail funding risk
- Intra-day liquidity risk
- Intra-group liquidity risk
- Cross-currency liquidity risk
- Off-balance sheet liquidity risk
- Franchise viability risk
- Marketable assets risk
- Non-marketable assets risk
- Funding concentration risk
- EAB specific funding concentration risk

Tactical Liquidity management is performed by Treasury under delegated authority from ALCO. Structural Liquidity management is carried out by ALCO, within the parameters set out in the Company's Liquidity Risk Policy.

The Treasury team is responsible for intra-day and end-of-day liquidity. Liquidity risk is measured at an overall Company level through regular reporting produced by the Regulatory Reporting team within Finance. Additional reporting is provided in the form of monthly liquidity reports submitted to the PRA. Regulatory liquidity requirements are calculated and monitored internally on a daily basis and are complemented by other internal liquidity limits set by the Company. The system of controls over liquidity risk is subject to oversight by the Market and Liquidity Risk Control team which reports to the Chief Risk Officer.

The ALCO is responsible for monitoring and reviewing liquidity positions and ensuring these positions are within the limits set.

The following tables analyse assets and liabilities into relevant maturity groupings based on the remaining period to contractual maturity. The maturity profiles disclosed below do not include the impact of behavioral characteristics observed by the Company. This has a material impact on the maturity profile and forms a key part of our liquidity management and stress testing. In addition, the Company also maintains a portfolio of marketable trading securities that can be liquidated in the event of unforeseen interruption of cash flow. The Company also benefits from the support of parent company, Arab Bank plc.

2015	Within 1mth €'000	1mth to 3mths €'000	3mths to 6mths €'000	6mths to 12mths €'000	1 to 3 years €'000	After 3 years €'000	Not tied to maturity €'000	Total €'000
Assets								
Cash and balances at central banks	730,000	-	-	-	-	-	36,472	766,472
Due from banks	252,012	48,787	666	-	-	-	163,227	464,692
Fair value through profit or loss								
- Held for trading	-	43,123	11,045	47,827	129,585	143,660	-	375,240
- Designated	-	-	-	-	-	-	-	-
Loans and advances to customers	61,724	96,830	41,278	59,083	352,513	705,301	-	1,316,729
Financial investments								
- Available for sale	10,807	33,314	61,798	40,677	233,475	143,143	-	523,214
- Held to maturity	-	-	-	-	40,582	17,602	-	58,184
Derivatives	5,392	300	96	171	288	7,084	-	13,331
Other assets	4,074	4,693	3,355	778	-	-	46,374	59,274
Total assets	1,064,009	227,047	118,238	148,536	756,443	1,016,790	246,073	3,577,136
Liabilities and equity								
Due to banks	372,095	40,682	226,822	77,403	-	-	437,659	1,154,661
Customer accounts	441,312	265,098	373,040	292,629	-	-	459,846	1,831,925
Derivatives	1,334	963	1,641	1,250	2,894	7,790	-	15,872
Other liabilities	895	963	1,653	886	380	333	27,788	32,898
Subordinated liabilities	-	-	-	-	-	-	231,165	231,165
Shareholders' equity	-	-	-	-	-	-	310,615	310,615
Total liabilities and equity	815,636	307,706	603,156	372,168	3,274	8,123	1,467,073	3,577,136

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

35. LIQUIDITY RISK (CONTINUED)

2014	Within 1mth €'000	1mth to 3mths €'000	3mths to 6mths €'000	6mths to 12mths €'000	1 to 3 years €'000	After 3 years €'000	Not tied to maturity €'000	Total €'000
Assets								
Cash and balances at central banks	176,000	-	-	-	-	-	11,373	187,373
Due from banks	344,258	33,206	596	1,552	-	-	258,207	637,819
Fair value through profit or loss	-	-	-	-	-	-	-	-
- Held for trading	7,514	62,364	-	131,667	225,805	114,114	-	541,464
- Designated	-	-	-	-	-	-	-	-
Loans and advances to customers	143,222	127,192	69,693	54,790	268,260	812,240	-	1,475,398
Financial investments	-	-	-	-	-	-	-	-
- Available for sale	16,002	22,717	-	67,458	302,269	14,076	-	422,522
- Held to maturity	-	-	-	8,138	9,494	17,842	-	35,474
Derivatives	2,966	4	79	59	603	7,010	-	10,721
Other assets	306	936	78	1,265	6,885	3,100	44,273	56,843
Total assets	690,269	246,419	70,446	264,929	813,316	969,382	313,853	3,367,614
Liabilities and equity								
Due to banks	198,813	114,537	250,168	108,624	-	-	160,243	832,385
Customer accounts	434,986	550,385	400,991	204,744	-	-	377,363	1,968,469
Derivatives	4,565	617	194	1,147	7,899	8,079	-	22,501
Other liabilities	1,032	1,362	1,300	901	256	247	27,702	32,800
Subordinated liabilities	-	-	-	-	-	-	207,966	207,966
Shareholders' equity	-	-	-	-	-	-	303,493	303,493
Total liabilities and equity	639,396	666,901	652,653	315,416	8,155	8,326	1,076,767	3,367,614

Liquidity risk - financial liabilities

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities except where the Company is entitled and intends to repay the liability before its maturity.

Gross Contractual Cash flows	Within 1mth €'000	1mth to 3mths €'000	3mths to 6mths €'000	6mths to 12mths €'000	1 to 3 years €'000	After 3 years €'000	Not tied to maturity €'000	Total €'000
2015								
Deposits by banks	372,366	272,648	227,536	77,729	-	-	442,702	1,392,981
Customer deposits	441,430	265,409	274,114	295,225	-	-	455,112	1,731,290
Subordinated liabilities	-	-	-	-	-	-	231,776	231,776
Total non-derivative financial liabilities	813,796	538,057	501,650	372,954	-	-	1,129,590	3,356,047
2014								
Deposits by banks	198,839	114,620	250,606	109,067	-	-	160,242	833,374
Customer deposits	435,068	550,831	401,875	206,298	-	-	377,364	1,971,436
Subordinated liabilities	-	-	-	-	-	-	208,327	208,327
Total non-derivative financial liabilities	633,907	665,451	652,481	315,365	-	-	745,933	3,013,137

The table below presents the contractual maturity date of letters of credit, financial guarantees and un-drawn committed facilities issued by the Company.

2015	Within 3 months €'000	3 to 12 months €'000	1 to 3 years €'000	After 3 years €'000
Letters of credit and acceptances	49,904	41,937	2,232	-
Financial guarantees	457,435	608,684	542,894	390,017
Un-drawn commitments	-	-	154,007	-

2014	Within 3 months €'000	3 to 12 months €'000	1 to 3 years €'000	After 3 years €'000
Letters of credit and acceptances	59,003	26,872	109	-
Financial guarantees	407,604	613,425	420,571	343,926
Un-drawn commitments	-	-	167,749	-

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

35. LIQUIDITY RISK (CONTINUED)

The following table details the Company's expected maturity for its derivative financial instruments. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

The table below presents the contractual maturity date of derivative financial instruments that will be settled on a net basis.

Gross contractual cash flows	Within 3 months €'000	3 to 12 months €'000	1 to 3 years €'000	After 3 years €'000
2015				
Interest rate swaps	28,362	131,158	331,446	341,819
Interest rate futures	-	36,240	5,074	-
2014				
Interest rate swaps	55,524	101,314	347,337	210,818
Interest rate futures	24,000	66,724	54,591	5,011

The table below presents the contractual maturity date of derivative financial instruments that will be settled on a gross basis (i.e. forward currency contracts).

Gross contractual cash flows	Within 3 months €'000	3 to 12 months €'000	1 to 3 years €'000	After 3 years €'000
2015				
Outflow	584,487	8,554	-	-
Inflow	579,333	8,484	-	-
2014				
Outflow	461,401	13,002	-	-
Inflow	459,813	12,784	-	-

Encumbered assets

Certain assets are pledged as collateral to secure liabilities under repurchase agreements, Credit Support Annex ("CSA") for derivative liabilities and as security deposits relating to futures, options and exchange memberships. The holders of these securities do not have the right to sell or re-pledge the asset except where specifically disclosed.

The aggregate amount of collateral pledged under CSAs is €16.4m (2014: €10.8m).

The Company has pledged €71.2m (2014: €66m) worth of investment securities and cash as collateral against its clearing operations.

36. OPERATIONAL RISK

The Company actively manages operational risk in accordance with regulation and guidance from the UK Financial Conduct Authority ("FCA") and Prudential Regulation Authority ("PRA"), as well as guidelines stipulated by other regulatory bodies.

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

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

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

The Company adopts the standardised approach for calculating Operational Risk capital as set out in the CRR and consequently embarks on rigorous risk identification exercises to establish any Pillar Two requirement for Operational Risk.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

37. CAPITAL MANAGEMENT AND RISK

The Company maintains an actively managed capital base to cover risks inherent in the business. The primary objectives of the Company's capital management are to ensure that the Company complies with both external and internal capital requirements and that the Company maintains healthy capital ratios in order to support its business and maximise shareholders' value.

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

The adequacy of the Company's capital is monitored using, amongst others, the rules and ratios established by the PRA. During the past year, the Company had complied in full with all its externally imposed capital requirements.

Europe Arab Bank's capital comprises net equity of €310m (2014: €304m) and perpetual subordinated liabilities of €231m (2014: €208m). The subordinated liabilities count as upper Tier 2 capital for the regulatory capital base. The regulatory capital base differs slightly from amounts reported above due to differing treatment of certain reserves.

38. COMPANY EVENTS AFTER THE BALANCE SHEET DATE

There have been no reportable events after the balance sheet date.

Europe Arab Bank plc

UNITED KINGDOM
Telephone country code: 44
Head Office
13 - 15 Moorgate
London EC2R 6AD
Tel. (0)20 7315 8500
Fax. (0)20 7600 7620

Private Banking
35 Park Lane
Mayfair
London W1K 1RB
Tel. (0)20 7355 8230
Fax. (0)20 7499 4193

FRANCE
Telephone country code: 33
Paris
P.O. Box 319
75365 Paris Cedex 08
26 Avenue des Champs
Elysées
75008 Paris
Tel. (0)1 45 61 60 00
Fax. (0)1 42 89 09 78

Cannes
45/47 La Croisette
06400 Cannes
Tel. (0)4 93 38 01 01
Fax. (0)4 93 99 59 39

GERMANY
Telephone country code: 49
Frankfurt
Bockenheimer Landstrasse 24
60323 Frankfurt am Main
Tel. (0)69 242 590
Fax. (0)69 235 471

ITALY
Telephone country code: 39
Milan
Corso Matteotti 1A
20121 Milan
Tel. 02 7639 8521
Fax. 02 7821 72

Arab Bank plc

JORDAN
Telephone country code: 962
Head office
General Management
Centralised Operations Unit
P.O. Box 950545
Amman 11195
Tel. (6) 560 0000
Fax. (6) 560 6793

ALGERIA
Telephone country code: 213
Algier
15 Boulevard du Bonheur
Residence Chaabani
Val D'Hydra
Tel. (21) 60 87 25
Fax. (21) 60 87 07

BAHRAIN
Telephone country code: 973
(No area code required)
Manama
P.O. Box 813, Building 540
Road 1706 - Block 317
Tel. (2) 1754 9000
Fax. (2) 1754 1116

EGYPT
Telephone country code: 20
Cairo
P.O. Box 68
Al-Mohandesseen
Geziret Al-Arab St.
Building No. 50
Tel. (2) 33029069/71
Fax. (2) 33029065

LEBANON
Telephone country code: 961
Beirut
P.O. Box 11-1015
Riad El-Solh Square
Banks Street, BCD
Tel. (1) 980 246-9
Fax. (1) 980 803, 980 299

MOROCCO
Telephone country code: 212
Casablanca
P.O. Box 13810
174, Mohammad V Blvd
Tel. (5) 2222 3152
Fax. (5) 2222 0233

PALESTINE
Telephone country code: 970
Ramallah
P.O. Box 1476
Grand Park Hotel Street
Al Masyoon
Tel. (2) 2978100
Fax. (2) 2982444

QATAR
Telephone country code: 974
(No area code required)
Doha
P.O. Box 172
Grand Hammed Area
Avenue no. 119
Tel. 44387777
Fax. 44387677

SINGAPORE
Telephone country code: 65
(No area code required)
Singapore
80 Raffles Place
32 - 20 UOB Plaza 2
Singapore 048624
Tel. 653 300 55
Fax. 653 221 50

UAE (UNITED ARAB
EMIRATES)
Telephone country code: 971
Abu Dhabi
Al Nasr St, Skh
Tahnoon Bin Mohammad
Building
Tel. (2) 639 2225
Fax. (2) 621 2370

Dubai
P.O. Box 11364
Al-Ittihad St.
Port Saeed Area
Tel. (4) 2950845
Fax. (4) 2955974

USA
Telephone country code: 1
New York (Federal agency)
150 East 52nd Street, 9th Floor
NY 10022
Tel. (212) 715 9700
Fax. (212) 223 3175

YEMEN REPUBLIC
Telephone country code: 967
Sana'a
P.O. Box 475 & 1301
Zubairi Road
Tel. (1) 276 585-93
Fax. (1) 276 583

Representative offices

CHINA
Telephone country code: 86
Shanghai
Unit 1803
Shanghai Trade Square
188 Si Ping Road
Shanghai 200086
Tel. (21) 650 777 37/38
Fax. (21) 650 727 76

SOUTH KOREA
Telephone country code: 82
Seoul
Samwha Bldg.
4th Floor
21 Sogong-Dong
Chung-ku
Seoul 100-070
Korea
Tel. (2) 775 4290
Fax. (2) 775 4294

Subsidiary & affiliate companies

AUSTRALIA
Arab Bank Australia Ltd
Telephone country code: 61
Sydney
P.O. Box N645
Grosvenor Place
NSW 1220
Level 7
20 Bridge Street
Sydney NSW 2000
Tel. (2) 937 789 00
Fax. (2) 922 154 28

OMAN
Oman Arab Bank S.A.O.
Telephone country code: 968
(No area code required)
Ruwi
P.O. Box 2010
MBD Area, 112 Ruwi
Tel. 247 062 65
Fax. 247 977 36

SAUDI ARABIA
Arab National Bank
Telephone country code: 966
Riyadh
P.O. Box 56921
King Faisal str.
North Murabba,
Riyadh 11564
Tel. (1) 402 9000
Fax. (1) 402 7747

SUDAN
Arab Sudanese Bank
Telephone country code: 249
Khartoum
Balidiyeh st.
P.O. Box 955
Khartoum
Tel. 1565 50001
Fax. 1565 50003

SWITZERLAND
Arab Bank (Switzerland) Ltd
Telephone country code: 41
Zurich
Bahnhoffstrasse 46
P.O. Box 2023
CH - 8022 Zurich
Tel. (44) 265 7111
Fax. (44) 265 7330

Geneva
Place Longemalle 10 - 12
P.O. Box 3575
CH - 1211 Geneva 3
Tel. (75) 715 1211
Fax. (75) 715 1311

SYRIA
Arab Bank Syria
Telephone country code: 963
Damascus
Al Mahdi Bin Baraka St.
Abu Rummana
Tel. (11) 9421
Fax. (11) 334 9844

TUNISIA
Arab Tunisian Bank
Telephone country code: 216
Tunis
P.O. Box 520
9 Rue Hedi Nouira
Tunis 1001
Tel. (71) 351 155
Fax. (71) 347 270

TURKEY
Turkland Bank
Telephone country code: 90
Istanbul
19 Mayis Mah.
19 Mayis Cad
Sisli Plaza A Block No.7
Sisli 34360
Tel. (212) 368 3434
Fax. (212) 368 3535

INVESTORS IN PEOPLE

www.eabplc.com