Company Registration No. 5575857

Europe Arab Bank plc

Annual Report and Financial Statements

31 December 2017

Europe Arab Bank plc
Annual Report and Financial Statements 2017

Contents

Europe Arab Bank plc
Directors, officers and professional advisers

Directors

Mr. Nemeh Sabbagh	Chairman
Mr. Ziyad Akrouk	Chief Executive Officer
Mr. Achim Klueber	Executive Director
Sir Edward Leigh	Independent Non-Executive Director
Mr. David Somers	Independent Non-Executive Director (resigned 10 March 2017)
Mr. Quentin Aylward	Independent Non-Executive Director (appointed 22 February 2017)
Mr. Eric Modave	Non-Executive Director
Mr. Ghassan Tarazi	Non-Executive Director

Company Secretary

Mr. Andrew Wilson

Executive Management

Mr. Ziyad Akrouk	Chief Executive Officer
Mr. Achim Klueber	Managing Director – Corporate & Institutional Banking
Mr. Charles Pickin	Chief Risk Officer
Mr. Dan Abulhawa	Head of Information Technology
Ms. Ekaterina Mihova	Head of Human Resources
Mr. Fadi Halout	Head of Private Banking
Mr. George Evans	Head of Operations
Mr. Mohammad Shoaib Memon	Chief Financial Officer
Mr. Neil Turnnidge	Head of Treasury
Ms. Nicola Christofides	Head of Compliance
Mr. Samir El-Sukhun	Head of Credit

Registered Office

13-15 Moorgate, London EC2R 6AD

Auditor

Ernst & Young LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom

Europe Arab Bank plc
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" or "the Bank") provides as its core businesses Corporate & Institutional Banking ("CIB"), Private Banking and Treasury services to its clients, operating 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. Arab Bank is the largest Arab banking network, with over 600 branches spanning five continents through Arab Bank PLC branches, subsidiaries, its sister company and associates.

Strategy and objectives

EAB's strategic objectives remain focused on the "Bridge to MENA" proposition. Our strategic goal is to remain a lean, customer focussed, niche bank that presents a seamless interface to the Arab Bank Group for customers in Europe, North America and MENA.

We act as an integral part of the Arab Bank Group and complement the Group's footprint by extending coverage to and for European & North American clients into MENA and vice versa.

We are a niche bank, focused on delivering excellence and value to our clients and business partners, and generating sustainable profits for the shareholder.

Vision and values

We aim to be recognised as a pre-eminent bank for clients active in Europe & North America and the MENA.

Our business is founded on a rich international heritage and experience, which we proactively share to the benefit of our clients. We use our local knowledge, expertise and understanding of the economic, political, social and commercial environments in Europe, North America and MENA to support the needs of our clients. Our clients come first; we are dedicated to working with them to build long term relationships and achieve lasting success.

Business Model

We operate a simple business model founded on three main business units, offering high service levels and building long-term relationships with clients and other stakeholders. We have offices in key strategic European centres: London, Paris, Frankfurt, Milan and an additional Private Banking branch in Cannes.

The key activities of the three main business units are:

- Corporate & Institutional Banking
- Private Banking
- Treasury

Corporate and Institutional Banking

Corporate and Institutional Banking provides banking services to European, North American and MENA based companies and financial institutions. Our knowledge, expertise and coverage in MENA enables us to add value to our European and North American clients doing business in the Arab world. Similarly, our presence in and access to key financial centres in Europe allows us to serve our MENA based clients in Europe.

Country and product focussed teams work together to support clients across a wide range of markets and industry sectors. We also assist our clients in Trade Finance and Project Finance. Clients benefit from a comprehensive suite of products and services including short and medium term advances, Export Credit Agency (ECA) backed financings, guarantees, letters of credit, treasury products and bespoke solutions designed to meet specific business and industry needs.

Private Banking

Private Banking's key function is to provide banking services to high net worth individual clients through our offices in London, Paris and Cannes. Our team of international professionals, with Arab world and European experience, provide a service based on financial expertise, respect, trust and cultural understanding.

In addition to access to a range of current and saving accounts and deposits, we provide real estate lending, Non-EEA resident mortgages, securities dealing, foreign exchange dealing and safe deposit box services. Our products are tailored to meet the needs of our clients.

Treasury

Treasury is responsible for the day-to-day management of assets and liabilities, interest rate risk, foreign exchange risk and liquidity management. In addition, Treasury provides a range of financial products in money markets, capital markets, foreign exchange and derivative markets which can be tailored to meet the needs of the private and corporate clients and assist them in managing their risks.

Financial Review

EAB's net profit after taxation for 2017 was €3.6mn (2016: €8.9mn). The reduction in profit after tax is attributable to the challenging environment in our key markets, in particular the MENA region. Furthermore, the Bank had an increased provision requirement against a facility issued on behalf of a client which entered into significant financial difficulties.

Operating Profit (€mn)	2017	2016
Net interest & similar income	29.6	32.6
Net fee & commission income	13.0	14.8
Other income (net)	2.5	2.3
Net Operating Income	45.0	49.7
Total Operating Expenses	(35.0)	(34.9)
Operating profit before impairment loss expense and tax expense as reported in the Income Statement	10.0	14.8
Impairment loss expense	(11.0)	(6.4)
Tax credit	4.6	0.5
Underlying Operating Profit for the year	**3.6**	**8.9**

Net interest & similar income ("NII") and net fee & commission income for 2017 were lower than 2016 largely due to reduced business activity in CIB as the fragile political environment and continuation of low oil prices had their impact on economic activity, infrastructure spending and thereby demand for financing in the MENA region. The reduction in income in CIB was offset by higher income in other business units.

Operating expenses remained low and similar to the 2016 levels.

Impairment related charges at €10.9mn (2016:€6.4mn) for 2017 increased primarily due to an increased provision requirement on a guarantee facility provided on behalf of a client which entered into significant financial difficulties raising concerns over recoverability of the amount and the exposure thereof was fully provisioned.

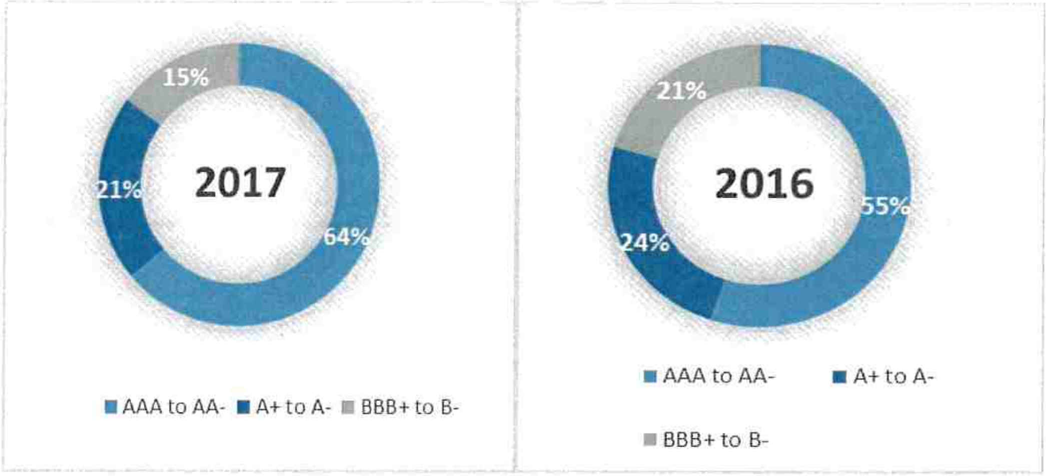
Europe Arab Bank plc
Strategic Report (continued)

Balance Sheet (€mn)	**2017**	**2016**
Cash and balances with banks and sister companies	1,327	1,587
Securities	817	929
Loans and advances to customers	1,122	1,220
Other assets	65	65
Total assets	**3,331**	**3,800**
Deposits by and due to banks and sister companies	1,200	1,310
Deposits by customers	1,708	1,891
Other liabilities	41	48
Total liabilities less Tier 2 capital	2,949	3,249
Tier 2 capital	104	239
Shareholder's equity	278	312
Total capital and liabilities	**3,331**	**3,800**
Customer related contingent liabilities and commitments	**1,325**	**1,732**

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 reduced compared to 2016 largely due to a decrease in the overnight funds received from Arab Bank Group placed onwards with central banks. The securities balance at the end of 2017 largely comprised highly rated sovereign and multilateral institutional holdings for liquidity purposes and highly rated financial institutions.

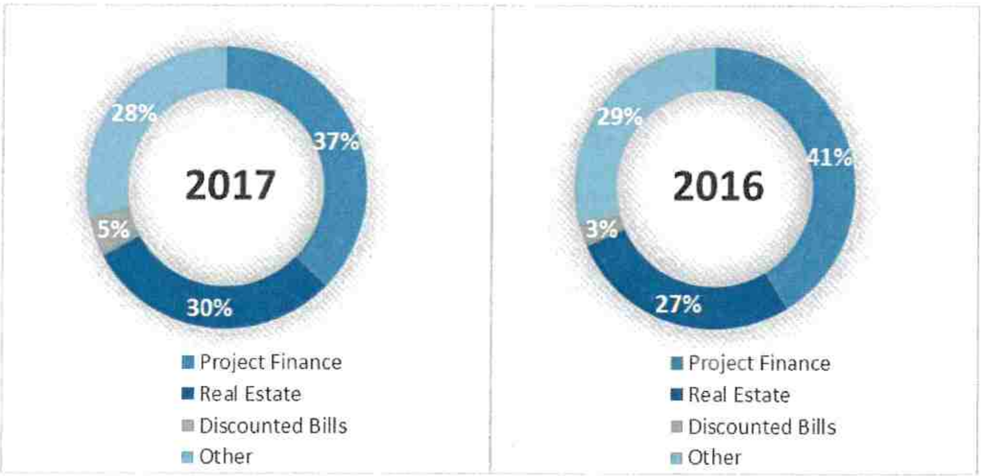
Cash and balances with banks and sister companies

Securities



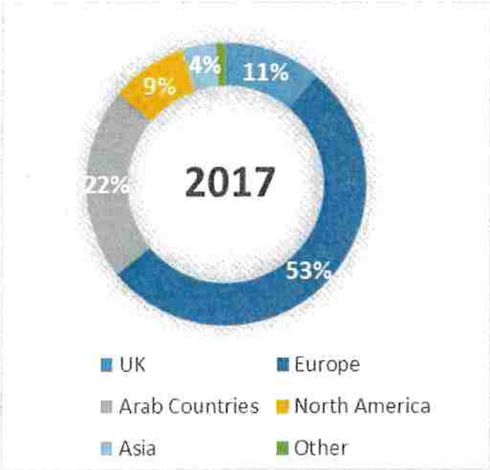
Loans and advances to customers reduced compared to 2016 largely due to FX revaluation of foreign currency loans and some impact of slowdown in economic activity in the MENA region. The loan portfolio largely comprised of corporate lending to MENA active clients, project financing, real estate lending (residential and commercial) for prime UK properties and short-term trade related discounting and financing facilities.

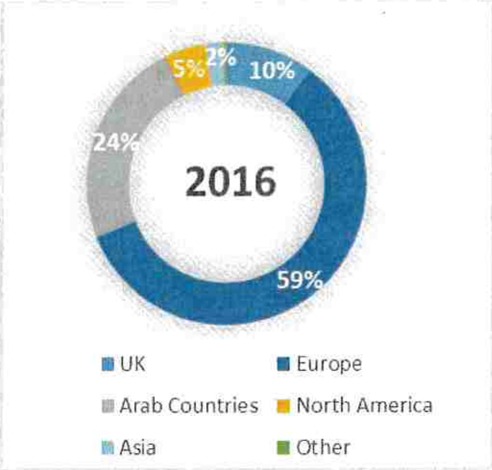
Loans and advances by sector



Geographical exposure to financial assets

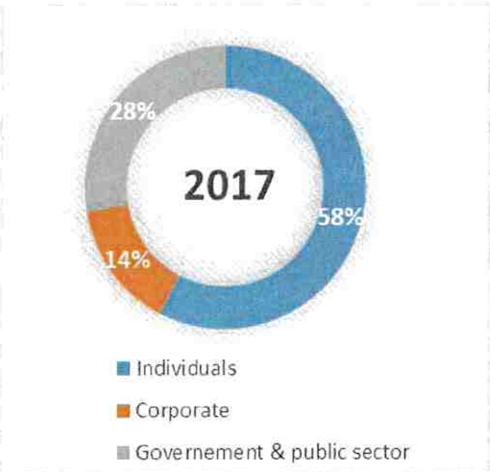
and credit related contingent liabilities and commitments

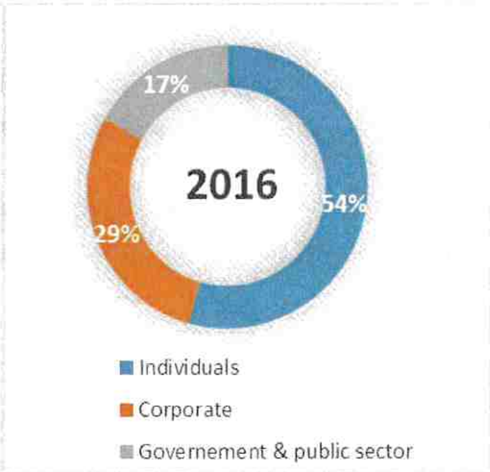




Deposits by banks and sister companies reduced year on year largely due to reduced overnight balances from Arab Bank Group entities. **Deposits by customers** were impacted by FX revaluation of foreign currency deposits which otherwise remained largely stable. Customer deposits consist of corporates, sovereign institutions, small and medium enterprises and high net-worth individuals having strong relationships with EAB.

Deposits by customers





Capital of the Company comprises equity and US$ denominated perpetual subordinated notes (Tier 2 capital). The Company reduced its issued share capital and subordinated notes during the year following receipt of relevant approvals. The reduction was undertaken after consideration of capital efficiencies in association with the shareholder, whilst maintaining reasonable capital surplus in view of the business requirements. The Company still maintains healthy capital ratio as discussed further later.

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

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.

KPI	Description	2017	2016
Adjusted loan to customer deposit ratio*	Represents EAB's ability to fund its lending from core deposits generated	56%	55%
Capital adequacy ratio	Measures EAB's financial strength, expressed as a ratio of total capital to risk weighted assets	21%	26%
Common equity tier 1 capital ratio	Measures EAB's financial strength, expressed as a ratio of common equity tier 1 capital to risk weighted assets	15%	15%
Coverage ratio	Reflects EAB's provisions against impaired assets (net of collateral)	100%	110%
Adjusted cost to Income Ratio	Measures operational efficiency of the business and the returns generated	77%	70%
Return on opening equity	Measures EAB's return generated on shareholder's equity	1.3%	3%
Return on assets	Measures return generated on total assets	0.1%	0.2%

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

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.
- The Bank also has zero appetite for unfair customer outcomes arising from any part of the customer lifecycle, including product design, sales, service and strategy and culture.

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.

Risk	Risk Mitigation and Management
Credit	
EAB faces credit and counterparty risk across its business units, particularly in CIB and Private Banking. 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

Risk	Risk Mitigation and Management
	reviews, including recommendations for new impairment provisions or reversal of existing provisions, both specific and collective, are carried out on a regular basis. EAB is required to adopt the International Financial Reporting Standard IFRS9 as of the 1st of January 2018, which amongst other would result in a change in impairment provision requirements. A project is currently underway to enable the Bank to comply with the new standard.
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) and matching the maturity profiles of financial assets and liabilities.). 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 2017 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. The minimum amount of regulatory liquidity required is determined in accordance with the relevant rules and the Individual Liquidity Guidance ("ILG") received from the regulator. At 31 December 2017, and throughout the year, EAB's liquidity exceeded the regulatory requirements.

Europe Arab Bank plc
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 also to 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 Profit and loss and capital base. Most of EAB's activities primarily fall into one of the three major currencies: Euro, Sterling and US Dollar . 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 foreign exchange 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.
Brexit	
As uncertainty around Brexit continues, EAB is developing contingency plans for the worst case scenario of a 'Hard Brexit' which could take place on 29 March 2019. This is in case Brexit negotiations fail and the UK would leave the EU with no trade agreement in place and revert to WTO rules with no financial services passporting rights into the EU.	EAB has considered a number of options of which the one currently favoured by the EAB Board is to establish a fully licenced banking subsidiary in the post-Brexit EU that affords equivalent EU passporting rights to those currently exercised by EAB. EAB management have engaged with relevant banking regulators and discussed the licencing requirements and the timeframe for seeking authorisation. EAB has carried out some initial work on the regulatory application process and anticipates submitting the application to the regulators allowing sufficient time for authorisation before the departure date of 29 March 2019. In such a 'Hard Brexit' situation, the EU27 Branches of EAB would be transferred to the newly established EU subsidiary which will have the necessary EU passporting rights ahead of 29 March 2019, with some, but limited, impact on the operations of the Bank.
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	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

Risk	Risk Mitigation and Management
inadequate capital to support EAB's pension obligations.	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 2017 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 2017, and throughout the year, EAB's capital exceeded the regulatory requirements.
Cyber	
In the current and ongoing landscape of IT, and in common with other public and private organisations, EAB faces the ever-present threat of increasing and more sophisticated cyber attacks that may disrupt customer services.	EAB has recently undertaken a substantial review of EAB's cybersecurity infrastructure and has initiated an ongoing project towards improving the bank's cybersecurity. We continue to strengthen and significantly invest in our ability to prevent, detect and reported at Board level to ensure appropriate visibility, governance and executive support for our ongoing cybersecurity programme.
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. A number of projects are underway to meet upcoming regulatory requirements. 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

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, prepared on a solo-consolidated basis, 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 applicable regulatory rules and expectations on remuneration, being applied in an appropriately 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, Compliance and Internal Audit functions will have input into the performance assessment of Senior Managers, 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 have 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 can benefit from financial and other support of Arab Bank Group. As a consequence, the Directors believe that EAB is well placed to manage its business risks successfully.

Europe Arab Bank plc
Strategic Report (continued)

After making enquiries, the Directors have a reasonable expectation that the Bank 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.

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 in Europe, particularly in the UK. Following the outcome of the EU referendum vote in the UK and the subsequent trigger of the Article 50, there is an extended period of uncertainty as the UK negotiates its withdrawal bill and exit from the EU. This may have an impact on the exchange and interest rates and potentially Middle Eastern interest in the UK market;
- The potential impact of 'Brexit' risk on the operations of the Bank has already been discussed above;
- Continued geopolitical instability in the MENA region and the impact of low oil prices may affect key markets and clients including new business and existing exposures; and
- Further significant changes to the regulatory or legislative environment could have a bearing on how the business operates and the Bank's financial position.

Approved by the Board and signed on its behalf by:

Andrew W.L

Andrew Wilson
Company Secretary
Date: 06 February 2018
13 -15 Moorgate
London EC2R 6AD

Europe Arab Bank plc
Corporate Governance

The Board of Directors of EAB ("the Board") is responsible for the overall governance of the Bank 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 as considered appropriate.

The key objectives of the Board are to ensure that the business of the Bank is conducted in an efficient and effective manner in order to promote the success of the Bank 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 Bank's strategy taking into account stakeholder interests;
- Ensuring that the business has an effective system of internal control and management of business risks and is conducted in accordance with the FCA's and PRA's Principles for Business;
- Monitoring financial information and reviewing the overall financial condition of the Bank 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 Bank'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 from Arab Bank plc.

Six Board meetings were held in the year ended 31 December 2017 (including the annual Board strategy meeting), with 100% attendance by Board members.

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 Bank 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

Europe Arab Bank plc
Corporate Governance (continued)

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 Bank'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; 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 three Non-Executive Directors, two of whom are independent. Mr Quentin Aylward is the Chairman of the Committee. The other Committee members are Sir Edward Leigh 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.

Key activities of the Committee for the year ended 31 December 2017 included:

- Considered and recommended the appointment of Ernst & Young LLP as auditors of the Bank in place of the retiring auditors Deloitte LLP;
- Met regularly to review quarterly reports received from: Executive Risk & Compliance Committee (and minutes), Head of Internal Audit and Head of Compliance; six meetings took place during the year;
- Reviewed the Bank's Annual Report 2016 and Financial Statements;
- Received quarterly updates from the Bank's Senior Statutory Auditor;
- Reviewed the Auditor Independence and Non-Audit Services Policy;
- 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 Plan and KRIs;
- Reviewed EAB's Risk Management Framework and Risk Map; monitored compliance with Risk Appetite Statements and Measures along with corresponding Values of Appetite and Overarching Risk Appetite Summary and reviewed a document entitled Effectiveness of EAB's Systems of Material Internal Controls Year ending 31 December 2016;
- Reviewed EAB's Risk Dashboards and reported critical risks to EAB Board from Chief Risk Officer and reviewed Risk Activities 2018;
- Reviewed the Internal Audit Plan for 2018, the Internal Audit Charter, the adequacy of the Internal Audit Function and the results of the External Quality Assessment of Internal Audit. 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 2018;
- Reviewed the Compliance Monitoring Programme and various compliance and financial crime prevention related policies as well as various Treasury related policies;

- Reviewed EAB's Client Assets Sourcebook (CASS) Management Framework; and associated policies and terms of reference;
- Reviewed EAB's Whistleblowing Systems and Controls;
- Reviewed EAB's Responsibilities Map; EAB's Conduct Risk Policy and Conduct Risk Appetite Statement and KPIs;
- Reviewed EAB's Business Continuity Policy and Framework and EAB Operational Risk Policy.

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 the Executive Committee;
- Recommend the terms of the Bank's Remuneration Policy and undertake the annual review of the Remuneration Policy Statement in line with regulatory rules and expectations on remuneration;
- Recommend Key Performance Indicators for Senior Management, 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 Quentin Aylward and Sir Edward Leigh.

Key routine activities for the year ended 31 December 2017 included:

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

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

Executive Committee

The Executive Committee represents the principal forum for conducting the day-to-day business of the Bank. 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

Europe Arab Bank plc
Directors' Report

The Directors present their annual report on the affairs of Europe Arab Bank plc ("EAB" or "the Bank" which includes the branches of Europe Arab Bank plc in France, Germany and Italy), together with the strategic report, corporate governance report, financial statements and auditor's report, for the year ended 31 December 2017. 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 €3.6m (2016: €8.9m). The Directors do not propose any dividend to be paid for 2017 (2016: €nil).

Financial risk management objectives and policies

The Bank's objectives and policies with regard to financial and other risks are discussed in the Strategic Report and also set out in Note 32 to Note 37 to the financial statements, together with an indication of the exposure to financial risk.

Going concern and future developments

These Financial Statements have been prepared on a going concern basis as the Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future. This is discussed further in the Strategic Report alongside the assessment of future outlook for the Bank.

Changes in Accounting Policies

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

Consolidated Financial Statements

The Bank has availed itself of the exemption under Section 401 of the Companies Act 2006 and has not published consolidated financial statements for the Bank and its subsidiaries. For further details refer to note 1(v).

Post-balance Sheet Events

There are no unadjusted or reportable events subsequent to the balance sheet date.

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

Sir Edward Leigh – Independent Non-Executive Director

Mr. David Somers - Independent Non-Executive Director (resigned 10 March 2017)

Mr. Quentin Aylward – Independent Non-Executive Director (appointed 22 February 2017)

Mr. Eric Modave – Non-Executive Director

Mr. Ghassan Tarazi – Non-Executive Director

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

Europe Arab Bank plc
Directors' Report (continued)

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 Bank 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.

Auditors

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 Bank'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 Bank'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.

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

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

Finally, the Directors would like to extend their gratitude to all the staff for their continued commitment to EAB and contributions during 2017.

Approved by the Board and signed on its behalf by:

Andrew Wilson
Company Secretary
Date: 06 February 2018
13 -15 Moorgate
London
EC2R 6AD

Europe Arab Bank plc
Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable UK law 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, the directors are required to:

- Properly select and apply accounting policies;
- Make judgments and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- 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: 06 February 2018
13 -15 Moorgate
London
EC2R 6AD

Independent auditor's report to the members of Europe Arab Bank plc

Opinion

We have audited the financial statements of Europe Arab Bank plc ("the Bank") for the year ended 31 December 2017 which comprise the Income Statement, Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 37, including a summary of significant accounting policies. 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 (EU).

In our opinion, the financial statements:

- give a true and fair view of the Bank's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of the audit approach

Key Audit Matters	• Inadequate provisions for impaired credit facilities • Improper recognition of fee and commission income • IT Systems and controls
Materiality	• Overall materiality of €5.6million which represents 2% of the Bank's total equity.

Independent auditor's report to the members of Europe Arab Bank plc (continued)

Performing a first year audit

In preparation for our first year audit of the 31 December 2017 financial statements, we undertook procedures to establish our independence from the Bank. This involved ceasing commercial relationships and ensuring that all staff who work on the audit were independent of the Bank and of Arab Bank Group. We used the time prior to commencing any audit work to gain an understanding of the business issues and meet with key management. We met the non-executive directors and, alongside the predecessor auditor, we attended the Board Audit and Risk Committee as observers. We reviewed the predecessor auditor's working papers while identifying and assessing the risks, judgements and potential audit and accounting issues documented by the predecessor auditors. We used the understanding that the audit team had formed to establish our audit base and assist in the formalisation of our audit strategy for the 2017 audit. This involved gaining an understanding of the key processes and controls over financial reporting.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Board Audit and Risk Committee
Inadequate provisions for impaired credit facilities Loans and advances amount to €1.1 billion (2016 €1.2 billion) net of credit impairment provisions of €42.1 million (2016: €49.7 million). A net charge of €11.0 million was taken to the Income Statement. Refer to the strategic report, accounting policies (note 1), and notes 14 and 16 of the financial statements. Impairment allowances represent management's best estimate of the losses incurred within the loan portfolios at the balance sheet date. They are calculated on (i) a collective basis for losses incurred but not yet recognised in the performing loan portfolios with	Our approach focused on: • Assessing, with the assistance of IT audit professionals, the design effectiveness and testing the operating effectiveness of key controls, for identifying credit events; • Reviewing credit files, arrears statistics, management's watchlist and related documentation, and where appropriate with the assistance of EY valuation specialists the collateral arrangements and valuations, as well as publicly available information that we judge to be relevant, together with management's assessment of likely recoveries, in order to assess the appropriateness and adequacy of impairment provisions focusing on areas where significant estimation is involved; • Evaluating the appropriateness and adequacy of the collective impairment provision by assessing and challenging management's assumptions used in the collective impairment provision calculation. In particular we utilised the	As a result of the procedures performed, we are satisfied that management's judgements are reasonable and that there is no evidence of material misstatement in the provision for impaired credit facilities.

Independent auditor's report to the members of Europe Arab Bank plc (continued)

Risk	Our response to the risk	Key observations communicated to the Board Audit and Risk Committee
a similar credit nature, and (ii) on an individual basis for loans where a loss event has occurred. The calculation of both collective and individual impairment allowances is inherently judgemental. Given the subjective nature of the calculation of credit impairment provisions there is heightened risk that the timing and extent of this could be subject to error or to management bias.	EY financial risk team to determine whether key assumptions and inputs were appropriate; and • Searching for evidence of impaired credit facilities that have not been provided for by reviewing credit files, arrears statistics, management's watch list and related documentation, the payment history for each credit facility and, where appropriate, collateral arrangements and valuations, as well as publicly available information that we judge to be relevant.	
Improper recognition of Fee and Commission Income Fee and commission income amounted to €14.2million (2016 €16.2 million). Refer to the accounting policies (note 1) and note 3 of the financial statements. The key risks of improper recognition of income arises from fees and commissions as they require judgement as to the amount and timing of recognition.	Our approach focused on: • Assessing, with the assistance of IT audit professionals, the design effectiveness and testing the operating effectiveness of key controls over fees and commission income; • Checking for a sample of fees and commissions that they have been computed in accordance with the underlying contracts, ascertained what service was provided for the fee or commission and determined whether it has been recognised or deferred appropriately; • Checking to supporting evidence any adjustments to the accounting records that have characteristics that we have identified that could indicate unusual or inappropriate adjustments; and • Performing year end cut off testing to ensure fee and commission income is recognised in the correct period.	For the reasons set out in the next key audit matter, we were unable to rely on controls in the relevant IT system relating to trade finance fees and commission income. Therefore we considerably extended our substantive testing procedures. Based on the audit procedures performed on fee and commission income, we did not identify any evidence of material misstatement.
IT Systems and controls Due to the pervasive nature and high dependency on the IT environment, the large volume of transactions processed daily, and the reliance on automated and IT dependent manual controls, IT systems and controls are critical to the	Using IT specialist auditors, our approach focused on: • Assessing the design effectiveness and testing the operating effectiveness of IT general controls (logical access and change management) and also specific controls within IT applications that mitigate the risk of misstatement within the financial statements. We considered the control environment relating to	Certain control deficiencies were identified in IT general controls. We altered our audit approach and; • identified compensating alternative controls and financial detective controls to sufficiently mitigate the risks; or • where there were no

Independent auditor's report to the members of Europe Arab Bank plc (continued)

Risk	Our response to the risk	Key observations communicated to the Board Audit and Risk Committee
accuracy of the Bank's financial reporting.	various interfaces, configuration and other application layer controls identified as key to our audit; and • Where deficiencies were identified, we tested compensating controls or, where no such controls could be identified, we considerably extended our detailed verification procedures over the existence, accuracy, and completeness of the transactions and balances impacted by the IT systems.	such controls we considerably extended our substantive procedures in order to mitigate the risks. Through these additional procedures we obtained reasonable assurance that the financial statements are free from material misstatement.

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine the extent of our audit work. This enables us to form an opinion on the financial statements. We take into account size, risk profile, organisation of the Bank, effectiveness of controls, and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of any misstatements identified in the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the purposes of our audit of the financial statements to be €5.6 million, which is 2% of the Bank's equity. We determined our materiality based on equity rather than on profits or revenues because the Bank's profitability is low relative to the balance sheet size, and also our expectation is that the main users of the financial statements, such as the Prudential Regulatory Authority and the immediate and ultimate controlling party, view capital preservation as a key consideration.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that an appropriate performance materiality was 50% of our planning materiality, namely €2.8 million.

Reporting threshold - an amount below which identified misstatements are considered as being clearly trivial.

We have agreed with the Board Audit & Risk Committee that we would report to them all uncorrected audit differences in excess of €0.279 million, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report to the members of Europe Arab Bank plc (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Bank and management.

Our approach in respect of irregularities, including fraud, was as follows

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant are Companies Act 2006, Financial Services and Markets Act 2000, Financial Services Act 2012, Capital Requirements Regulation, and relevant Prudential Regulation Authority and Financial Conduct Authority regulations.
- We understood how the Bank complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Bank and UK regulatory bodies, reviewed minutes of the Board, the Board Audit & Risk Committee, and the executive committee; and gained an understanding of the Bank's approach to governance demonstrated by the Board's approval of the EAB risk management framework and the internal controls processes.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Bank has established to address risks identified by the Bank, or that otherwise seek to prevent, deter, or detect fraud. We also considered performance incentives and their potential to influence management to manage earnings.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures included inquiries of management, internal audit, and those responsible for legal and compliance matters; as well as focused testing as referred to in the Key Audit Matters section above. In addition we performed procedures to identify any significant items inappropriately held in suspense and also any significant inappropriate adjustments made to the accounting records.
- As the audit of banks requires specialised audit skills, the senior statutory auditor considered the experience and expertise of the audit team to ensure that the team had the appropriate competence and capabilities, and included the use of specialists where appropriate.

This report is made solely to the Bank'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 Bank'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 Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Independent auditor's report to the members of Europe Arab Bank plc (continued)

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed as auditors by the Bank at the annual general meeting on 15 February 2017 and our engagement letter was signed on 5 June 2017.
- Non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remained independent of the Bank in conducting the audit.
- The audit opinion is consistent with our additional report to the Board Audit & Risk Committee.

Ernst & Young LLP

Kenneth Eglinton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
London
9 February 2018

Europe Arab Bank plc
Income Statement for
Year ended 31 December 2017

Continuing operations	Notes	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Interest and similar income	2	55,419	50,676
Interest and similar expense	2	(25,844)	(18,032)
Net interest and similar income		29,575	32,644
Fee and commission income	3	14,150	16,202
Fee and commission expense	3	(1,193)	(1,450)
Net trading gains	4	1,223	7
Other operating income	5	1,235	2,338
Net operating income		44,990	49,741
Amortisation of intangible assets	19	(236)	(236)
Depreciation of property, plant and equipment	20	(832)	(859)
Other operating expenses	6	(33,934)	(33,855)
Total operating expenses before impairment losses		(35,002)	(34,950)
Operating profit before impairment loss expense and tax expense		**9,988**	**14,791**
Impairment loss expense	8	(10,998)	(6,359)
(Loss)/Profit before tax		(1,010)	8,432
Tax credit	9	4,648	446
Profit for the year		3,638	8,878
Attributable to:			
Owners of the Company		3,638	8,878
		3,638	8,878

Europe Arab Bank plc
Statement of Comprehensive Income for Year ended 31 December 2017

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Profit for the year	3,638	8,878
Items that will not be reclassified subsequently to profit or loss:		
Re-measurement of net defined benefit pension liability	1,736	(4,746)
Items that may be reclassified subsequently to profit or loss:		
Available for sale assets:		
- Fair value gains taken to equity on financial investments	1,914	2,646
- Deferred tax	-	(265)
- Fair value losses taken to equity on investment in subsidiaries	(1,101)	(4,823)
Exchange differences on translation of non-Euro denominated operations	(2)	(11)
	811	(2,453)
Other comprehensive income/(loss) for the year	2,548	(7,199)
Total comprehensive income for the year	6,185	1,679
Attributable to:		
Owners of the Company	6,185	1,679

Europe Arab Bank plc
Balance Sheet
as at 31 December 2017

	Notes	2017 €'000	2016 €'000
Assets			
Cash and balances at central banks	11	878,140	1,099,048
Due from banks	12	448,463	487,591
Fair value through profit or loss			
- Held for trading	13	278,079	319,793
Loans and advances to customers	14	1,122,480	1,219,770
Financial investments			
- Available for sale	15	497,728	552,547
- Held to maturity	15	41,263	56,591
Derivative financial assets	17	9,043	11,286
Investment in subsidiaries	18	28,530	29,631
Other intangible assets	19	576	813
Property, plant and equipment	20	4,148	2,766
Other assets	21	16,289	19,001
Deferred tax assets	10	6,606	1,324
Total assets		3,331,345	3,800,161
Liabilities and Equity			
Liabilities			
Deposits by banks	23	1,199,663	1,310,494
Deposits by customers	24	1,707,926	1,891,013
Derivative financial liabilities	17	10,395	14,015
Other liabilities	25	20,995	20,851
Current tax liabilities		758	437
Retirement benefit liabilities – defined benefit scheme	22	9,040	12,308
Subordinated liabilities	26	104,089	238,749
Total liabilities		3,052,866	3,487,867
Equity			
Called up share capital	27	569,998	609,998
Retained earnings		(286,958)	(292,332)
Foreign exchange reserve		(16)	(14)
Available for sale reserve		(4,545)	(5,358)
Total equity		278,479	312,294
Total liabilities and equity		3,331,345	3,800,161

These financial statements were approved by the Board of Directors and authorised for issue on 06 February 2018.

Signed on behalf of the Board of Directors:

Ziyad Akrouk

Ziyad Akrouk
Director

A. P. Klueber

Achim Klueber
Director

Company Registration No. 5575857

Europe Arab Bank plc
Statement of Changes in Equity for Year ended 31 December 2017

	Ordinary Share Capital €'000	Available for Sale Reserve €'000	Foreign Exchange Reserve €'000	Retained Earnings €'000	Total Share-holders Equity €'000
As at 31 December 2015	609,998	(2,916)	(3)	(296,464)	310,615
Profit for the year	-	-	-	8,878	8,878
Other comprehensive income/(loss)	-	(2,442)	(11)	(4,746)	(7,199)
As at 31 December 2016	609,998	(5,358)	(14)	(292,332)	312,294
Profit for the year	-	-	-	3,638	3,638
Reduction in ordinary shares	(40,000)	-	-	-	(40,000)
Other comprehensive income/(loss)	-	813	(2)	1,736	2,547
As at 31 December 2017	569,998	(4,545)	(16)	(286,958)	278,479

Europe Arab Bank plc
Cash Flow Statement for
Year ended 31 December 2017

	2017 €'000	2016 €'000
Cash flows from operating activities		
(Loss)/Profit before tax, adjusted for:	(1,010)	8,432
- Depreciation	832	859
- Amortisation	236	236
- Impairment loss expense	10,998	6,359
- Net foreign exchange (loss)/gain on subordinated liabilities	(15,106)	7,584
	(4,050)	23,470
Decrease/(Increase) in operating and other assets		
Funds advanced to customers	86,292	90,600
Funds advanced to banks	39,128	(22,899)
Fair value through profit or loss and derivatives	40,337	55,653
Financial investments	72,061	(25,359)
Other assets	2,709	991
	240,527	98,986
(Decrease)/Increase in operating and other liabilities		
Customer deposits	(183,085)	59,088
Funds received from banks	(110,833)	155,833
Other liabilities and retirement benefit liabilities	(1,179)	(4,214)
	(295,097)	210,707
Income taxes paid	(521)	(3)
Net cash (outflows)/inflows from operating activities	(59,141)	333,160
Cash flows from investing activities		
Acquisition of property, plant and equipment	(2,214)	(584)
Acquisition of intangible assets	-	-
Investment in subsidiaries	-	-
Net cash outflows from investing activities	(2,213)	(584)
Cash flows from financing activities		
Repayment on cancellation of ordinary shares	(40,000)	-
Repayment of subordinated liabilities	(119,554)	-
Net cash outflows from financing activities	(159,554)	-
Net (decrease)/increase in cash and cash equivalents	(220,908)	332,576
Cash and cash equivalents at 1 January	1,099,048	766,472
Cash and cash equivalents at 31 December	878,140	1,099,048

Operational cash flows from interest and dividends

Interest paid	(23,985)	(16,697)
Interest received	57,349	51,133
Dividend received	163	116

Europe Arab Bank plc
Notes to the Financial Statements for Year ended 31 December 2017

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. The registered offce is at 13-15 Moorgate, London EC2R 6AD.

Basis of preparation

The financial statements of Europe Arab Bank plc ('the Bank') 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).

The financial statements are presented in Euros (€), which is the functional currency of the Bank. 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 that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

1. Accounting policies (continued)

Annual Improvements to IFRSs 2015-2017 Cycle

The amendments are in the nature of clarifications rather than substantive changes to existing requirements.

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

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that will replace IAS 39 for annual periods on or after 1 January 2018, with early adoption permitted. The Bank has set up a multidisciplinary implementation team with members from business and support functions to prepare for IFRS 9 implementation. The Bank's assessment of impact of adoption of IFRS 9 at present is summarised below:

Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair Value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if the designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

Having completed its initial assessment, the Bank has concluded that:

- The majority of loans and advances to banks, loans and advances to customers, cash collateral and cash settlement balances that are classified as loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9;
- Financial assets and liabilities held for trading and financial assets and liabilities designated at FVPL are expected to continue to be measured at FVPL
- The majority of the debt securities classified as available for sale under IAS 39 are expected to be measured at amortised cost or FVOCI. Some securities, however, will be classified as FVPL because of their contractual cash flow characteristics.
- Debt securities classified as held to maturity are expected to continue to be measured at amortised cost.

Hedge accounting

IFRS 9 allows entities to continue with the hedge accounting under IAS 39 even when other elements of IFRS 9 become mandatory on 1 January 2018. Based on its analysis, the Bank has decided to continue to apply hedge accounting under IAS 39.

1. Accounting policies (continued)

Impairment of financial assets

IFRS 9 will fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

To calculate ECL, the Bank will estimate the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to the Bank under the contract, and the cash flows that the Bank expects to receive, discounted at the effective interest rate of the loan.

In comparison to IAS 39, the Bank expects the impairment charge under IFRS 9 to be more volatile than under IAS 39. Based on the analysis to date, the Bank anticipates based on preliminary figures an increase in loss allowance for an amount of EUR 3.0mn resulting in an equal negative impact on equity, on the adoption of the new impairment requirements under IFRS 9.

Disclosure requirements

IFRS 9 also introduces expanded disclosure requirements. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments and impairment.

Regulatory capital

The Bank is in the process of evaluating how the new ECL model will impact the Bank's regulatory capital. At present the impact is not considered to be material.

The Directors do not expect that the adoption of the following standards will have a material impact on the financial statements of the Bank in future periods, except where noted:

- IFRS 15 Revenue from Contracts with Customers – limited impact on revenue recognition and related disclosures
- IFRS 16 Leases – limited impact on accounting of leases
- IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IAS 28 (amendments) Long-term Interests in Associates and Joint Ventures

1. **Accounting policies (continued)**

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, fair value through profit and loss 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 Bank 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.

1. **Accounting policies (continued)**

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).

1.Accounting policies (continued)

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 Bank 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 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.

1. Accounting policies (continued)

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 Bank 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 Bank 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.

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 Bank 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 Bank 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 Bank 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.

1. Accounting policies (continued)

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 Bank 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. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

(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.

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 Bank 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 Bank applies hedge accounting for transactions which meet specified criteria.

At inception of the hedge relationship, the Bank 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.

1. Accounting policies (continued)

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'. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also 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 Bank, and the counterparty liability is included separately in deposits by banks on the balance sheet as appropriate. Similarly, where the Bank 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.

1. **Accounting policies (continued)**

(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 and communication 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.

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.

1. **Accounting policies (continued)**

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 Bank 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 Bank 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 Bank 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 balance sheet represents the deficit or surplus in the Bank'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 Bank 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.

1. **Accounting policies (continued)**

(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.

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

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.

(s) Capital instruments

The Bank classifies a financial instrument that it issues as a 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 Bank after the deduction of liabilities. The components of a compound financial instrument issued by the Bank are classified and accounted for separately as financial liabilities or equity as appropriate.

1. **Accounting policies (continued)**

(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 Bank'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 Bank is a wholly-owned subsidiary of Arab Bank plc, a company incorporated in Jordan and registered at Shmeisani PO Box 144186, Amman 11814, Jordan, and in accordance with Section 401 of the Companies Act 2006, is not required to produce, and has not published, consolidated financial statements.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Bank'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.

(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 Bank 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 Bank 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 on an individual or collective basis.

(iii) Impairment of financial investments

The Bank 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.

1. **Accounting policies (continued)**

(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.

2. Interest and similar income and expense

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Interest and similar income		
Cash and funds held with central banks	117	24
Due from banks	7,308	4,124
Fair value through profit or loss	813	(1,752)
Loans and advances to customers	36,590	37,221
Financial investments	10,591	11,059
Total interest and similar income	55,419	50,676
Interest and similar expense		
Deposits by banks	(6,520)	(3,395)
Customer accounts	(16,678)	(11,148)
Subordinated liabilities	(2,336)	(3,263)
Other	(310)	(226)
Total interest and similar expense	(25,844)	(18,032)
Net interest and similar income	29,575	32,644

3. Fees and commission income and expense

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Banking and credit related fees and income	12,643	14,525
Other commissions and fee income	1,507	1,677
Fees and commission income	14,150	16,202
Fees and commission expense	(1,193)	(1,450)

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 € 83,955 (2016: €111,094).

4. Net trading gains

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Foreign exchange dealing	956	(432)
Others	267	439
	1,223	7

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 2017 €'000	Year ended 31 December 2016 €'000
Revenue from services	126	162
Rental income	509	516
Income from subsidiaries including dividend	364	380
Other revenue	236	1,280
	1,235	2,338

6. Other operating expenses

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Staff costs (note 7)	19,617	19,644
Administrative expenses	6,909	6,074
Auditor's remuneration (see below)	606	739
Operating lease rentals	1,974	2,030
Other expenses	4,827	5,368
	33,934	33,855

Auditor's remuneration

Amounts paid and payable to the Bank's principal auditor, Ernst & Young LLP and its affiliated firms (2016: Deloitte LLP) were as follows:

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Fees payable to the Bank's auditor for the audit of the Bank's annual accounts	445	418
Total audit fees	445	418
Other services:		
- Audit related assurance services	137	141
- Taxation compliance services	-	180
- Other services	24	-
Total non-audit fees	161	321
	606	739
	606	739

7. Staff costs

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Salaries, wages and allowances	15,740	15,836
Social security costs	2,533	2,403
Pension costs – defined contribution scheme	1,344	1,405
	19,617	19,644

The average number of permanent persons employed by the Bank in 2017 was 131 (2016: 130). Of these, 50 (2016: 49) were employed in the strategic business units and credit administration; 60 (2016: 61) were employed in the support units and 21 (2016: 20) were employed in control and risk functions. The total number of persons employed at the end of 2017 was 131 (2016: 131).

8. Impairment loss expense

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Loans and advances to customers	12,723	6,652
Due from banks	5,309	-
Less: recoveries/releases during the year	(7,034)	(293)
	10,998	6,359

9. Tax credit

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Current taxation:		
UK corporation tax (credit)/charge for the year	(588)	531
Foreign tax for current year	1,229	30
Adjustment in respect of prior years	(7)	(132)
	634	429
Deferred taxation	(5,282)	(875)
Taxation credit	**(4,648)**	**(446)**

9. Tax credit (continued)

The actual tax credit (2016: charge) differs from the expected tax credit (2016: charge) computed by applying the standard rate of UK corporation tax of 19.25% (2016: 20%) as follows:

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
(Loss)/Profit before tax	(1,010)	8,432
Expected tax (credit)/charge at 19.25% (2016: 20%)	(194)	1,686
Permanent disallowables	15	174
Foreign profits taxed at other rates	1,229	30
Adjustment in respect of prior years	(7)	(132)
Rates differences	(22)	-
Movement in temporary differences not recognised	(387)	(1,329)
Deferred tax assets recognised	(5,282)	(875)
Actual tax credit in Income Statement	(4,648)	(446)

10. Deferred tax

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

	Temporary differences		Total	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Balance at 1 January	1,324	714	1,324	714
Recognised in Income Statement	5,282	875		610
Recognised in Other Comprehensive Income	-	(265)		-
Balance at 31 December	6,606	1,324	1.324	1,324

At the balance sheet date, the Bank has unused tax losses of €361mn (2016: €351mn) and other temporary differences of €27mn (2016: €31mn) available for offset against future profits. A deferred tax asset has been recognised on losses of €12mn (2016: nil) and gross temporary differences of €14mn (2016: €9mn). No deferred tax asset has been recognised in respect of the remaining €349mn (2016: €351mn) of losses and €13mn (2016: €22mn) of other temporary differences at the balance sheet date due to limited certainty with respect to availability of suitable future profits.

11. Cash and balances at central banks

	2017 €'000	2016 €'000
Cash	1,085	1,340
Balances with central banks	877,055	1,097,708
	878,140	1,099,048

12. Due from banks

	2017 €'000	2016 €'000
Current accounts	207,463	138,873
Time deposits	246,309	348,718
Due from banks before impairment	453,772	487,591
Impairment loss allowances (note 16)	(5,309)	-
	448,463	487,591
Amounts above include:		
Due from parent company	33,075	11,386
Due from fellow subsidiaries	4,993	5,519

13. Fair value through profit or loss

	2017 €'000	2016 €'000
Held for trading – bonds (quoted)	278,079	319,793
	278,079	319,793

14. Loans and advances to customers

	2017 €'000	2016 €'000
Discounted bills	55,883	32,400
Corporate loans and advances	1,044,604	1,167,482
Other loans and advances	64,058	69,603
Total before impairment	1,164,545	1,269,485
Impairment loss allowances (note 16)	(42,065)	(49,715)
	1,122,480	1,219,770

15. Financial investments

	2017 €'000	2016 €'000
Available-for-sale financial investments		
Bonds	497,728	552,547
	497,728	552,547

	2017 €'000	2016 €'000
Held to maturity financial investments – bonds		
Gross carrying amount	57,148	72,793
Impairment loss allowances (note 16)	(15,885)	(16,202)
	41,263	56,591

16. Impairment loss allowances

	2017 €'000	2016 €'000
As at 1 January	65,917	69,961
Charged to income statement	18,032	6,652
Recoveries/releases during the year	(7,034)	(293)
Amounts written off	(11,043)	(9,277)
Translation adjustments	(2,613)	(1,126)
	63,259	65,917

16. Impairment loss allowances (continued)

2017	Gross carrying amount €'000	Impairment loss allowance €'000	Net carrying amount €'000
Due from banks	453,772	(5,309)	448,463
Loans and advances to customers	1,164,545	(42,065)	1,122,480
Held to maturity assets	57,148	(15,885)	41,263
Available for sale assets	497,728	-	497,728
	2,173,193	(63,259)	2,109,934

2016	Gross carrying amount €'000	Impairment loss allowance €'000	Net carrying amount €'000
Due from banks	487,591	-	487,591
Loans and advances to customers	1,269,485	(49,715)	1,219,770
Held to maturity assets	72,793	(16,202)	56,591
Available for sale assets	552,547	-	552,547
	2,382,416	(65,917)	2,316,499

The policy on impairment measurement is provided in the accounting policies note 1(e) and details of the methodology in note 33. Impairment loss allowance includes collective impairment of €5m (2016: €14.3m).

Included in the impairment allowance are assets with a balance of €30.1m (2016: €6.8m) which have been placed under administration and/or liquidation.

17. Derivatives

The Bank's objectives and policies on managing the risks that arise in connection with derivatives are included in note 1(i) and note 34.

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 Bank's exposure to credit or price risks.

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

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

Interest rate swaps

These are agreements between two parties to exchange periodic payments of interest over a set period based on notional principal amounts. The Bank 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 over the counter (OTC) agreements to deliver, or take delivery of, a specified amount of an asset or financial instrument based on a specified rate applied against the underlying asset or financial instrument, at a specified date..

Derivative financial instruments held or issued for trading purposes

Most of the Bank's derivatives trading activities relate to deals with customers that are normally offset by transactions with other counterparties. The Bank 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 Bank 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.

17. Derivatives (continued)

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

	2017 Notional €'000	2017 Fair value asset €'000	2017 Fair value liability €'000	2016 Notional €'000	2016 Fair value asset €'000	2016 Fair value liability €'000
Derivatives held for trading						
Interest rate swaps	458,557	4,893	4,027	401,900	5,684	7,029
Currency forward contracts	416,571	221	5,428	618,255	3,455	5,379
	875,128	5,114	9,455	1,020,155	9,139	12,408
Derivatives used as fair value hedges						
Interest rate swaps	339,698	3,929	940	390,609	2,147	1,607
Total recognised derivative assets and liabilities	1,214,826	9,043	10,395	1,410,764	11,286	14,015

Fair value hedges

Fair value hedges are used by the Bank 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 Bank 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:

	2017 €'000	2016 €'000
Gains/(losses) on:		
Hedging instruments	2,712	3,045
Hedged items attributable to the hedged risk	(3,319)	(2,410)
Hedge ineffectiveness	(607)	635

18. Investment in subsidiaries

The wholly owned subsidiaries of the Bank and their activities are noted below. The registered address of all the subsidiaries is 13-15 Moorgate, London, EC2R 6AD.

Name	Place of incorporation	Proportion of ownership and voting power held	Principal activity	Cost 2017	Cost 2016
13-15 Moorgate No. 1 Limited	England and Wales	100%	General partner to property partnership	€14.2m	€14.8m
13-15 Moorgate No.2 Limited	England and Wales	100%	General partner to property partnership	€14.2m	€14.8m
EAB Client Assets Nominee Limited	England and Wales	100%	Dormant	€112	€117

Movement in value of investment in subsidiaries

	2017 €'000	2016 €'000
As at 1 January	29,631	34,479
Translation adjustments	(1,101)	(4,848)
As at 31 December	28,530	29,631

19. Other intangible assets

	2017 €'000	2016 €'000
Software		
Cost		
As at 1 January	1,182	1,182
Additions	-	-
As at 31 December	1,182	1,182
Amortisation		
As at 1 January	(369)	(133)
Charge for the year	(236)	(236)
As at 31 December	(606)	(369)
Net book value		
As at 1 January	813	1,049
As at 31 December	576	813

20. Property, plant and equipment

	Land	Freehold and Leasehold Improvements	Furniture fixtures and fittings	Computer and communication equipment	Total
	€'000	€'000	€'000	€'000	€'000
Cost					
As at 1 January 2016	290	7,073	978	10,059	18,400
Additions	-	3	317	265	585
Disposals	-	-	-	-	-
At 31 December 2016	290	7,076	1,295	10,324	18,985
Accumulated depreciation and impairment losses					
As at 1 January 2016	-	(4,994)	(945)	(9,421)	(15,360)
Depreciation	-	(489)	(40)	(330)	(859)
Disposals	-	-	-	-	-
At 31 December 2016	-	(5,483)	(985)	(9,751)	(16,219)
Net book value	290	1,593	310	573	2,766
Cost					
As at 1 January 2017	290	7,076	1,295	10,324	18,985
Additions	-	292	442	1,481	2,215
Disposals	-	-	-	-	-
At 31 December 2017	290	7,367	1,737	11,805	21,199
Accumulated depreciation and impairment losses					
As at 1 January 2017	-	(5,483)	(985)	(9,751)	(16,219)
Depreciation	-	(396)	(102)	(334)	(832)
Disposals	-	-	-	-	-
At 31 December 2017	-	(5,879)	(1,087)	(10,085)	(17,051)
Net book value	290	1,488	650	1,720	4,148

21. Other assets

	2017 €'000	2016 €'000
Prepayments	3,025	2,563
Accrued interest receivable	11,535	13,465
Other assets and receivables	1,729	2,973
	16,289	19,001
Amounts above include:		
Due from parent company	496	870
Due from fellow subsidiaries	1,093	1,109

22. Retirement benefits – defined benefit scheme

The Bank sponsors the plan which is a funded defined benefit arrangement, closed to new members and future accrual. This is a separate trustee administered fund holding the pension plan assets to meet long term pension liabilities for around 444 past employees as at 31 December 2017 (31 December 2016: 444). 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 31 December 2015 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 surplus/deficit to be calculated using prudent, as opposed to best estimate actuarial assumptions.

The actuarial valuation as at 31 December 2015 showed a deficit of €9.7m. The Bank has agreed with the trustees that it will aim to eliminate the deficit over a period of 7 years from 1 January 2017 by the payment of annual contributions of €1.4mn 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 actuarial valuation as at 31 December 2015 has been updated on an approximate basis to 31 December 2017. There have been no changes in the valuation methodology adopted for this period's disclosures compared to the previous period's disclosures.

22. Retirement benefits – defined benefit scheme (continued)

(a) Amounts for the current and previous periods

	2017 €'000	2016 €'000	2015 €'000	2014 €'000	2013 €'000
Defined benefit obligation	(74,693)	(79,474)	(76,959)	(74,055)	(60,176)
Fair value of plan assets	65,652	67,166	66,615	64,227	58,027
Net deficit	(9,040)	(12,308)	(10,344)	(9,828)	(2,149)
Net liability recognised	(9,040)	(12,308)	(10,344)	(9,828)	(2,149)

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

	2017 €'000	2016 €'000
Balance as at 1 January	79,474	76,959
Current service cost	-	-
Interest cost	2,089	2,622
Actuarial losses/(gains)	948	12,717
Benefits paid	(4,766)	(1,650)
Translation adjustments	(3,052)	(11,174)
Balance as at 31 December	74,693	79,474

(c) Changes in the fair value of plan assets

	2017 €'000	2016 €'000
Balance as at 1 January	67,166	66,615
Interest Income	1,774	2,290
Employer contributions	1,439	1,283
Return on assets excluding interest income	2,657	8,242
Benefits paid	(4,766)	(1,650)
Translation adjustments	(2,615)	(9,614)
Balance as at 31 December	65,652	67,166

The actual return on plan assets for the year ended 31 December 2017 was €4.4m (2016: €12m).

22. Retirement benefits – defined benefit scheme (continued)

(d) Total expense recognised in the income statement

	2017 €'000	2016 €'000
Net interest cost	314	332
	314	332

(e) Total amount included in other comprehensive income

	2017 €'000	2016 €'000
Return on plan assets (excluding amounts included in net interest cost)	2,657	8,242
Experience gains	289	2,051
Effects of change in demographic assumptions	759	2,143
Effects of change in financial assumptions	(1,996)	(16,911)
Translation adjustments	27	(271)
	1,736	(4,746)

(f) Assets

	2017 €'000	2016 €'000
UK equities	5,987	13,045
Overseas equities	8,585	-
Corporate bonds	6,979	19,226
Index linked gilts	8,871	8,320
Diversified growth fund	11,687	-
Property	4,688	6,259
Fixed interest	454	-
Cash	155	823
Insured Assets	18,246	19,493
Balance as at 31 December	65,652	67,166

22. Retirement benefits – defined benefit scheme (continued)

(g) Principal assumptions in determining the defined benefit obligation

	2017 %		2016 %	
	Liabilities	Assets	Liabilities	Assets
Discount rate	2.59	2.41	2.78	2.58
Expected rate of salary increases	N/A	N/A	N/A	N/A
Expected rate of inflation (RPI)	3.2	3.15	3.35	3.25
Expected rate of inflation (CPI)	2.1	2.05	2.25	2.15
Allowance for commutation of pension for cash at retirement	20% of pension		20% of pension	

The mortality assumptions adopted imply the following life expectancies:

	Life expectancy at age 65 (years)
Male retiring in 2017	21.9
Female retiring in 2017	23.7
Male retiring in 2037	23.0
Female retiring in 2037	25.40

(h) Sensitivity

	Change in assumption	Change in liabilities
Discount rate	Decrease of 0.25% p.a.	Increase by 4.9%
Rate of inflation	Increase of 0.25% p.a.	Increase by 2.1%
Rate of mortality	Increase of life expectancy of 1 year	Increase by 3.0%
Commutation	Members commute an extra 10% of Post A Day pension on retirement	Decrease by 0.7%

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 2017 is 20 years.

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. 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. Finally, the trustees have in part managed these risks by securing some pensioner liabilities with insurance policies which exactly match the benefits provided under the scheme.

23. Deposits by banks

	2017 €'000	2016 €'000
Due to other banks	1,199,663	1,310,494
	1,199,663	1,310,494
Amounts above include:		
Due to parent company	511,260	671,962
Due to fellow subsidiaries	57,907	59,843

24. Customer accounts

	2017 €'000	2016 €'000
Deposits by customers	1,707,926	1,891,013
	1,707,926	1,891,013
Amounts above include:		
Due to subsidiaries	5,250	4,771

25. Other liabilities

	2017 €'000	2016 €'000
Accruals	11,474	13,292
Deferred income	811	996
Accrued interest payable	7,576	5,717
Other payables and liabilities	1,134	846
	20,995	20,851
Amounts above include:		
Due to parent company	68	43
Due to fellow subsidiaries	19	12

26. Subordinated liabilities

	2017 €'000	2016 €'000
USD 251.785 million floating rate notes		
LIBOR plus 0.35%	-	96,515
LIBOR plus 0.50%	104,089	142,234
	104,089	238,749

The Notes are perpetual, subordinated to all other creditors and are listed on the Channel Islands Stock Exchange. The Notes count as upper tier 2 capital for the Bank's regulatory capital base. During the year the Bank made a partial repayment to note holders (2016: €nil).

27. Share capital

	2017 €'000	2016 €'000
Authorised and issued share capital		
50,000 (2016 - 50,000) deferred shares of £1 each	72	72
569,925,540 (2016 - 609,925,540) fully paid up ordinary shares of €1 each	569,926	609,926
As at 31 December	569,998	609,998

During the year the issued share capital of the Bank was reduced by cancellation and extinguishment of 40,000,000 of the issued ordinary shares of €1 each and the amount so reduced was repaid to the ordinary shareholder (2016: €nil).

28. Contingent liabilities and commitments

In the ordinary course of business, the Bank 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 Bank has entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities.

	2017 €'000	2016 €'000
Letters of credit	83,352	103,200
Acceptances	2,804	21,702
Guarantees given to third parties	1,077,100	1,463,822
Unused credit facilities and forward contract trades	161,288	143,526
	1,324,544	1,732,250

28. Contingent liabilities and commitments (continued)

Letters of credit, acceptances and guarantees commit the Bank 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 Bank 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 Bank is the lessee, the future minimum lease payments under non-cancellable building operating leases are as follows:

	2017 €'000	2016 €'000
Less than one year	1,917	2,048
Between one and five years	6,257	6,236
More than five years	6,384	4,294
Total commitments payable	14,558	12,578

The Bank 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.

29. Related party disclosure, including Directors' emoluments

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

(a) Trading transactions

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

	Interest, fees and other income received		Interest, fees and other expense paid		Amounts owed by related parties		Amounts owed to related parties		Guarantees, acceptances and letters of credit	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000	2017 €'000	2016 €'000	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Parent company	1,892	895	839	1,594	33,075	11,386	511,315	614,701	13,726	18,743
Subsidiaries	-	-	-	-	1,543	1,312	5,250	4,770	-	-
Fellow subsidiaries*	68	44	2,513	1,801	4,993	5,519	162,064	59,246	11,788	32,674
Associates**	207	37	71	4	21,555	22,972	20,619	14,984	3,123	-
Other related parties	372	142	2	-	20,818	19,913	2,037	1,186	-	-
	2,539	1,118	3,424	3,399	81,984	61,099	701,285	694,887	28,636	51,417

* 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 (2016: €nil).

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:

	2017 €'000	2016 €'000
Key management compensation		
Short-term employee benefits	4,960	4,680
Post-employment benefits	291	309
	5,251	4,989

The information above includes executive Directors' remuneration detailed below.

	2017 €'000	2016 €'000
Directors' emoluments		
Chairman and Executive Directors - emoluments	1,727	1,624
- retirement and termination benefits	121	120
	1,848	1,744
Non-Executive Directors - emoluments	214	181
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 €1,120,417 (2016: €1,024,305).

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 Bank in the normal course of banking business.

	2017 No. of persons	2017 €'000	2016 No. of persons	2016 €'000
Loans	7	581	8	642
Deposits	5	34,540	4	20,645

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 Bank.

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.

	2017 Level 1 €'000	2017 Level 2 €'000	2017 Level 3 €'000	2017 Total €'000
Financial assets at fair value through profit or loss				
- Held for trading	278,079	-	-	278,079
Derivative financial instruments – assets	-	9,043	-	9,043
Financial investments				
- Available for sale	497,728	-	-	497,728
Investment in subsidiaries	-	-	28,530	28,530
Total	775,087	9,043	28,530	813,380
Derivative financial instruments – liabilities	-	10,395	-	10,395
Total	-	10,395	-	10,395

There have been no transfers between level 1 and level 2 (2106: nil).

30. Fair values of financial instruments (continued)

	2016 Level 1 €'000	2016 Level 2 €'000	2016 Level 3 €'000	2016 Total €'000
Financial assets at fair value through profit or loss				
- Held for trading	319,793	-	-	319,793
Derivative financial instruments – assets	-	11,286	-	11,286
Financial investments				
- Available for sale	552,547	-	-	552,547
Investment in subsidiaries	-	-	29,631	29,631
Total	872,340	11,286	29,631	913,257
Derivative financial instruments – liabilities	-	14,015	-	14,015
Total	-	14,015	-	14,015

Reconciliation of Level 3 fair value measurements of financial assets

	2017 €'000	2016 €'000
Balance at 1 January	29,631	34,479
Net additions and settlements	-	-
Fair value gain in income statement	-	-
Translation adjustment	(1,101)	(4,848)
Balance at 31 December	28,530	29,631

30. Fair values of financial instruments (continued)

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:

	2017 Fair value €'000	2017 Book value €'000	2016 Fair value €'000	2016 Book value €'000
Financial investments – held to maturity at initial recognition	37,904	41,263	51,845	56,591
Total	37,904	41,263	51,845	56,591

The Bank did not hold any material compound instruments or embedded derivatives at the year end (2016: €nil).

31. Operating segments

For management purposes, the Bank 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 Bank. 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 Bank.
- 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 Bank in 2017 or 2016.

31. Operating segments (continued)

2017

	CIB €'000	Treasury €'000	Private Banking €'000	Other €'000	Total €'000
Net operating income	39,255	4,294	(2,073)	3,513	44,990
Inter-segment revenue	(9,883)	1,721	12,018	(3,856)	-
Total operating revenue	29,372	6,015	9,945	(343)	44,990
Net business unit contribution	12,870	(601)	(460)	(1,821)	9,988
Impairment loss expense	(10,998)	-	-	-	(10,998)
Profit/(loss) before tax	1,872	(601)	(460)	(1,821)	(1,010)
Tax credit/(expense)	(1,238)	-	-	5,886	4,648
Profit/(loss) for the year	634	(601)	(460)	4,065	3,638

2016

	CIB €'000	Treasury €'000	Private Banking €'000	Other €'000	Total €'000
Net operating income	44,144	4,665	(30)	962	49,741
Inter-segment revenue	(7,727)	1,887	4,846	994	-
Total operating revenue	36,417	6,552	4,816	1,956	49,741
Net business unit contribution	19,420	(81)	(5,504)	956	14,791
Impairment loss expense	(6,359)	-	-	-	(6,359)
Profit/(loss) before tax	13,061	(81)	(5,504)	956	8,432
Tax credit/(expense)	(57)	-	-	503	446
Profit/(loss) for the year	13,004	(81)	(5,504)	1,459	8,878

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

2017

	CIB €'000	Treasury €'000	Private Banking €'000	Other €'000	Total €'000
Segment assets	1,046,790	1,921,762	352,468	10,325	3,331,345
Segment liabilities	873,341	611,125	1,440,366	128,034	3,052,866

2016

	CIB €'000	Treasury €'000	Private Banking €'000	Other €'000	Total €'000
Segment assets	1,360,840	2,300,019	101,080	38,222	3,800,161
Segment liabilities	1,475,771	312,033	1,434,178	265,885	3,487,867

32. Risk management policies

The Bank's Risk Appetite is approved by the Board of Directors, and defines the types and amounts of risk that the Bank is willing to take in pursuit of its business strategy. This is reviewed regularly and provides qualitative statements, quantitative measures and detailed underlying limits for the purposes of the management and monitoring of risk appetite.

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

- risk management accountability rests with each department concerned;
- there is independent and effective risk oversight 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 Bank 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 Bank. The CRO is tasked with taking a comprehensive view of risks that might impact on the Bank, embedding an effective EAB Risk Management (ERM) Framework into the overall strategy and operations, and continually strengthening the Bank'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 and control. Line Two is responsible for risk oversight, providing independent oversight and challenge of risk and compliance issues, and includes Risk 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: Oversight and assurance, 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 Bank 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 Bank 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 Bank. The Bank 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 Bank'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 Bank 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.

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, limit management (e.g. obligor, industry & country limits), collateral and provisioning.

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

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

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

- Significant financial difficulty of the borrower;
- A breach of contract such as a default or delinquency in payment of interest or principal;
- Forbearance, where the Bank, 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.

33. Credit risk (continued)

In addition, a collective impairment assessment has been carried out for a set of financial assets with similar risk characteristics using the Bank's internal credit rating system. This involves application of judgemental assumptions including potential impairment on default and loss given default.

Quality of Assets

Financial assets split by external ratings, where available, for 2017:

31 December 2017

	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 nor impaired					
AAA to AA-	940,701	61,066	515,889	20	1,517,676
A+ to A-	287,579	18,804	173,916	6,667	486,966
BBB+ to BB-	59,080	81,346	119,381	271	260,078
Unrated	37,474	931,939	-	2,085	971,498
	1,324,834	1,093,155	809,186	9,043	3,236,218
Past due but not impaired	-	-	-	-	-
Individually impaired	7,078	71,390	23,769	-	102,237
Gross	1,331,912	1,164,545	832,955	9,043	3,338,455
Less: allowance for impairment	(5,309)	(42,065)	(15,885)	-	(63,259)
Net	1,326,603	1,122,480	817,070	9,043	3,275,196

33. Credit risk (continued)

Quality of Assets (continued)

Financial assets split by external ratings, where available, for 2016:

31 December 2016

	Cash, balances with central banks and due from banks	Loans and advances to customers	Fair value through profit or loss and financial investments	Derivatives	Total
	€'000	€'000	€'000	€'000	€'000
Neither past due nor impaired					
AAA to AA-	1,284,282	58,658	499,389	521	1,842,850
A+ to A-	252,679	26,926	220,018	307	499,930
BBB+ to B-	49,676	93,418	186,153	7,267	336,514
Unrated	2	1,015,063	15,169	3,191	1,033,425
	1,586,639	1,194,064	920,729	11,286	3,712,718
Past due but not impaired	-	-	-	-	-
Individually impaired	-	75,421	24,404	-	99,825
Gross	1,586,639	1,269,485	945,133	11,286	3,812,543
Less: allowance for impairment	-	(49,715)	(16,202)	-	(65,917)
Net	1,586,639	1,219,770	928,931	11,286	3,746,626

33. Credit risk (continued)

Quality of Assets (continued)

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

	2017 €'000	2016 €'000
1 - 3 - investment grade	312,692	313,662
4 - 5 - standard monitoring	562,272	672,124
6 - special monitoring	212,729	198,642
7 - watch	8,883	32,900
8 - 10 - classified	25,904	2,442
Total	1,122,480	1,219,770

Internal ratings are mapped to a range of 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 Bank 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.

33. Credit risk (continued)

Concentration of risk (continued)

Industrial exposure to financial assets and credit related contingent liabilities and commitments as at 31 December 2017:

	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	878,140	29,558	193,880	-	12,702	1,114,280
Financial institutions	448,463	49,420	574,974	6,983	139,426	1,219,266
Individuals	-	63,156	-	-	32	63,188
Industrial and commercial	-	980,346	48,216	2,060	1,172,384	2,203,006
	1,326,603	1,122,480	817,070	9,043	1,324,544	4,599,740

Industrial exposure to financial assets and credit related contingent liabilities and commitments as at 31 December 2016:

	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	1,099,048	42,886	149,683	-	54,006	1,345,623
Financial institutions	487,591	22,458	699,622	8,128	206,100	1,423,899
Individuals	-	68,828	-	-	32	68,860
Industrial and commercial	-	1,085,598	79,626	3,158	1,472,112	2,640,494
	1,586,639	1,219,770	928,931	11,286	1,732,250	5,478,876

33. Credit risk (continued)

Concentration of risk (continued)

Geographical exposure to financial assets and credit related contingent liabilities and commitments as at 31 December 2017:

	Cash, balances with central banks and due from banks	Loans and advances to customers	Fair value through profit or loss and financial investments	Derivatives	Contingent liabilities and commitments	Total
	€'000	€'000	€'000	€'000	€'000	€'000
UK	97,471	297,106	83,679	61	31,806	510,123
Europe	973,244	161,992	383,280	6,651	908,796	2,433,963
Arab Countries	54,341	663,307	257,992	2,331	45,692	1,023,663
North America	154,141	75	8,329	-	233,509	396,054
Asia	47,363	-	33,252	-	100,831	181,446
Other	43	-	50,538	-	3,910	54,491
	1,326,603	1,122,480	817,070	9,043	1,324,544	4,599,740

Geographical exposure to financial assets and credit related contingent liabilities and commitments as at 31 December 2016:

	Cash, balances with central banks and due from banks	Loans and advances to customers	Fair value through profit or loss and financial investments	Derivatives	Contingent liabilities and commitments	Total
	€'000	€'000	€'000	€'000	€'000	€'000
UK	111,775	282,538	98,741	712	62,722	556,488
Europe	1,273,416	186,050	528,108	5,776	1,221,073	3,214,423
Arab Countries	12,609	749,866	232,153	4,798	317,751	1,317,177
North America	119,218	1,316	9,510	-	125,643	255,687
Asia	69,605	-	42,640	-	5,060	117,305
Other	16	-	17,779	-	-	17,795
	1,586,639	1,219,770	928,931	11,286	1,732,250	5,478,876

33. Credit risk (continued)

Credit derivatives and collateral

The Bank did not hold any credit derivatives during the year (2016: €nil) to reduce the exposure to credit risk on any of the instruments.

The Bank 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 Bank must be sufficiently liquid and their value over time sufficiently stable to provide the Bank 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 Bank primarily accepts the following forms of collateral, subject to meeting the necessary legal and risk 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 Bank'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, and also in the preceding year, there was no possession of underlying collateral by the Bank.

The carrying amount of financial assets recorded in the balance sheet, net of any allowances for losses, represents the Bank'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:

	2017 €'000	2016 €'000
Collateral type		
Cash collateral	20,917	57,373
Guarantees	138,838	183,161
Residential real estate	130,123	75,664
Commercial real estate	225,015	242,350
Equity and debt securities	34,459	47,698
Other collateral	538	1,747
	549,890	607,993

Offsetting of financial assets and liabilities

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

The Bank 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 market risks that may become more 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 Bank recognises that reinvestment risk may become material in future years and plans to add appropriate measurement, monitoring and reporting capabilities when necessary.

The interest rate risks that have been identified can have an impact on both the earnings and economic value of the Bank 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 CFO. 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.

34. Market risk (continued)

(a) Interest Rate Risk Management (continued)

The following tables provide a summary of the interest rate re-pricing profile of the Bank'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 notional amount of derivative financial instruments whose effect is to alter the interest basis of the Bank's assets and liabilities.

31 December 2017

	Within 1 month	1 month to 3 months	3 months to 6 months	6 months to 12 months	1 to 3 years	After 3 years	Non interest bearing	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Assets								
Cash and balances at central banks	877,063	-	-	-	-	-	1,077	878,140
Due from banks	366,507	81,956	-	-	-	-	-	448,463
Fair value through profit								
- Held for trading	61,286	65,458	12,454	-	70,988	67,893	-	278,079
Loans and advances to customers	151,180	549,348	261,248	14,945	58,179	29,127	58,453	1,122,480
Financial investments								
- Available for sale	51,031	116,843	-	6,579	133,735	189,540	-	497,728
- Held to maturity	6,859	7,884	15,014	11,506	-	-	-	41,263
Derivatives	3,239	5,563	236	5	-	-	-	9,043
Other assets	-	-	-	-	-	-	56,149	56,149
Total assets	1,517,165	827,052	288,952	33,035	262,902	286,560	115,679	3,331,345
Liabilities and equity								
Deposits by banks	440,604	101,236	7,078	-	-	20,000	630,745	1,199,663
Customer accounts	105,644	360,588	456,616	273,055	46,868	-	465,155	1,707,926
Derivatives	7,418	2,390	583	4	-	-	-	10,395
Other liabilities	-	-	-	-	-	-	30,793	30,793
Subordinated liabilities	-	104,089	-	-	-	-	-	104,089
Shareholders' equity	-	-	-	-	-	-	278,479	278,479
Total liabilities and	553,666	568,303	464,277	273,059	46,868	20,200	1,405,172	3,331,345
Interest rate sensitivity gap	963,499	258,749	(175,325)	(240,024)	216,034	266,560	(1,289,493)	

34. Market risk (continued)

(a) Interest Rate Risk Management (continued)

31 December 2016

	Within 1 month	1 month to 3 months	3 months to 6 months	6 months to 12 months	1 to 3 years	After 3 years	Non interest bearing	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Assets								
Cash and balances at central banks	1,000,000	-	-	-	-	-	99,048	1,099,048
Due from banks	331,732	16,289	697	-	-	-	138,873	487,591
Fair value through profit or								
- Held for trading	69,546	150,265	-	-	75,545	24,437	-	319,793
Loans and advances to customers	205,413	478,499	329,031	35,859	104,061	-	66,907	1,219,770
Financial investments								
- Available for sale	101,029	138,929	19,036	28,890	110,240	154,423	-	552,547
- Held to maturity	7,759	9,204	-	12,986	26,642	-	-	56,591
Derivatives	6,926	4,215	141	4	-	-	-	11,286
Other assets	-	-	-	-	-	-	53,535	53,535
Total assets	1,722,405	797,401	348,905	77,739	316,488	178,860	358,363	3,800,161
Liabilities and equity								
Deposits by banks	457,955	197,137	-	-	-	-	655,402	1,310,494
Customer accounts	185,810	371,230	361,085	311,740	-	-	661,148	1,891,013
Derivatives	9,760	3,648	475	132	-	-	-	14,015
Other liabilities	-	-	-	-	-	-	33,596	33,596
Subordinated liabilities	-	238,749	-	-	-	-	-	238,749
Shareholders' equity	-	-	-	-	-	-	312,294	312,294
Total liabilities and equity	653,525	810,764	361,560	311,872	-	-	1,662,440	3,800,161
Interest rate sensitivity gap	1,068,880	(13,363)	(12,655)	(234,133)	316,488	178,860	(1,304,077)	

34. Market risk (continued)

(b) Foreign Currency Risk Management

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

The Bank 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 Bank 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 Chief Finance Officer. 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.

34. Market risk (continued)

(b) Foreign Currency Risk Management (continued)

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

Currency	2017 CCY '000	2017 €'000	2016 CCY '000	2016 €'000
UAE Dirham	318	72	(607)	(157)
Australian Dollar	27	17	(8)	(5)
Bahraini Dinar	4	8	1	3
Canadian Dollar	19	13	(7)	(5)
Swiss Franc	(32)	(27)	15	14
Danish Kroner	(104)	(14)	1	-
Algerian Dinars	321	2	321	3
Egyptian Pounds	3	-	3	-
Euro	5,405	5,405	4,978	4,978
Sterling	(98)	(110)	2	2
Israeli Shekel	131	32	-	-
Indian Rupee	-	-	-	-
Jordanian Dinar	2	3	(2)	(2)
Japanese Yen	411	3	(266)	(2)
Kuwaiti Dinar	6	18	3	(10)
Moroccan Dirham	23	2	31	3
Norwegian Kroner	(2)	-	(66)	(7)
New Zealand Dollars	(2)	(1)	9	6
Omani Rial	7	15	4	9
Qatari Riyals	(20)	(5)	199	52
Saudi Riyals	(424)	(94)	(17)	(4)
Swedish Kroner	(8)	(1)	5	-
Tunisian Dinar	4	3	20	8
Singapore Dollar	21	7	2	1
US Dollar	98	81	43	41
Yemen Riyals	15	-	15	-
Total utilisation of limit (excluding EUR balance)	-	24	-	(50)

34. Market risk (continued)

(c) Sensitivity Analysis

The following table details the Bank'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 Bank has measured the EUR equivalent of movements in interest rates for GBP, EUR and USD. The Bank 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.

	2017 Impact on Profit/(Loss) €'000	2016 Impact on Profit/(Loss) €'000
Interest rate sensitivity		
100bps increase in interest rate	2,586	1,066
100bps decrease in interest rate	(3,934)	(859)
25bps stepped increase to 100bps over 2 months	2,567	1,066
25bps stepped decrease to 100bps over 2 months	(3,934)	(859)

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

Foreign currency risk sensitivity

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

	2017 €'000	2016 €'000
EUR appreciates 10%	(5,785)	(1,972)
EUR appreciates 20%	(11,569)	(3,944)
EUR depreciates 10%	5,785	1,972
EUR depreciates 20%	11,569	3,944

35. Liquidity risk

The ultimate responsibility for liquidity risk management and for setting the Bank'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 Bank's short, medium and long-term funding and liquidity management requirements on a day-to-day basis. The Bank 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 Bank 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 Bank's cash flows including its contingent liabilities. The Bank's Internal Liquidity Adequacy Assessment Process (ILAAP) document sets out the details of its approach to measuring, monitoring and controlling liquidity risk.

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

The three categories are:

- Short-term tactical liquidity risk

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

- Structural liquidity risk

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

The Bank has also identified several risk factors which form components of the Bank's overall liquidity risk profile. 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

35. Liquidity risk (continued)

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 Bank's ILAAP document.

The Treasury team is responsible for intra-day and end-of-day liquidity. Liquidity risk is measured at an overall Bank 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 Bank. 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 Bank. This has a material impact on the maturity profile and forms a key part of our liquidity management and stress testing. In addition, the Bank also maintains a portfolio of marketable trading securities that can be liquidated in the event of unforeseen interruption of cash flow.

2017

	Within 1 month €'000	1 month to 3 months €'000	3 months to 6 months €'000	6 months to 12 months €'000	1 to 3 years €'000	After 3 years €'000	Not tied to maturity €'000	Total €'000
Assets								
Cash and balances at central banks	800,000	-	-	-	-	-	78,140	878,140
Due from banks	196,970	81,956	-	-	-	-	169,537	448,463
Fair value through profit or loss								
- Held for trading	-	20,810	39,820	-	136,989	80,460	-	278,079
Loans and advances to customers	25,036	84,660	31,595	54,367	174,269	694,098	58,455	1,122,480
Financial investments								
- Available for sale	25,004	17,488	-	9,590	222,427	223,219	-	497,728
- Held to maturity	-	-	15,014	11,506	-	14,743	-	41,263
Derivatives	108	101	55	11	2,845	5,923		9,043
Other assets	219	489	216	251	2,383	6,856	45,735	56,149
Total assets	1,047,337	205,504	86,700	75,725	538,913	1,025,299	351,867	3,331,345
Liabilities and equity								
Deposits by banks	357,332	30,456	161,129	-	-	20,000	630,746	1,199,663
Customer accounts	105,644	360,588	456,616	273,055	46,868	-	465,155	1,707,926
Derivatives	3,103	2,384	74	44	1,985	2,805	-	10,395
Other liabilities	745	1,935	3,831	1,161	166	214	22,741	30,793
Subordinated liabilities	-	-	-	-	-	-	104,089	104,089
Shareholders' equity	-	-	-	-	-	-	278,479	278,479
Total liabilities and equity	466,824	395,363	621,650	274,260	49,019	23,019	1,501,210	3,331,345

35. Liquidity risk (continued)

2016

	Within 1 month €'000	1 month to 3 months €'000	3 months to 6 months €'000	6 months to 12 months €'000	1 to 3 years €'000	After 3 years €'000	Not tied to maturity €'000	Total €'000
Assets								
Cash and balances at central banks	1,000,000	-	-	-	-	-	99,048	1,099,048
Due from banks	331,732	16,289	697	-	-	-	138,873	487,591
Fair value through profit or loss								
- Held for trading	-	56,915	-	-	183,880	78,998	-	319,793
Loans and advances to customers	15,057	148,443	15,852	43,560	296,463	700,395		1,219,770
Financial investments							-	
- Available for sale	50,217	54,916	29,547	34,906	175,694	207,267	-	552,547
- Held to maturity		1,002	-	12,986	26,642	15,961	-	56,591
Derivatives	2,718	741	5	2	625	7,195	-	11,286
Other assets	554	2,381	253	521	-	-	49,826	53,535
Total assets	1,400,278	280,687	46,354	91,975	683,304	1,009,816	287,747	3,800,161
Liabilities and equity								
Deposits by banks	339,427	140,243	175,422	-	-	-	655,402	1,310,494
Customer accounts	185,810	371,230	361,085	311,740	-	-	661,148	1,891,013
Derivatives	5,172	1,117	49	278	2,197	5,202	-	14,015
Other liabilities	856	1,684	2,169	1,166	250	259	27,212	33,596
Subordinated liabilities	-	-	-	-	-	-	238,749	238,749
Shareholders' equity	-	-	-	-	-	-	312,294	312,294
Total liabilities and equity	531,265	514,274	538,725	313,184	2,447	5,461	1,894,805	3,800,161

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35. Liquidity risk (continued)

Liquidity risk financial liabilities

The following table details the Bank'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 Bank is entitled and intends to repay the liability before its maturity.

Gross contractual cash flows	Within 1 month	1 to 3 months	3 months to 6 months	6 months to 12 months	1 to 3 years	After 3 years	Not tied to maturity	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
2017								
Deposits by banks	359,302	32,653	162,153	-	-	20,000	630,746	1,204,854
Customer deposits	105,691	361,375	459,533	276,629	47,485	-	465,155	1,715,868
Subordinated liabilities	-	-	-	-	-	-	104,652	104,652
Total non-derivative financial liabilities	446,993	394,028	621,686	276,629	47,485	20,000	1,200,553	3,025,374
2016								
Deposits by banks	340,192	142,219	176,097	-	-	-	655,401	1,313,909
Customer deposits	185,810	371,541	362,159	314,336	-	-	661,149	1,894,995
Subordinated liabilities	-	-	-	-	-	-	239,605	239,605
Total non-derivative financial liabilities	526,002	513,760	538,256	314,336	-	-	1,556,155	3,448,509

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

	Within 3 months	3 to 12 months	1 to 3 years	After 3 years
	€'000	€'000	€'000	€'000
2017				
Letters of credit and acceptances	45,291	27,426	13,439	-
Financial guarantees	281,111	279,966	269,691	246,332
Un-drawn commitments	-	-	161,288	-

	Within 3 months	3 to 12 months	1 to 3 years	After 3 years
	€'000	€'000	€'000	€'000
2016				
Letters of credit and acceptances	43,288	80,985	629	-
Financial guarantees	498,343	328,339	373,436	321,026
Un-drawn commitments	-	-	143,526	-

35. Liquidity risk (continued)

The following table details the Bank'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
2017				
Interest rate swaps	28,634	46,924	327,640	395,057
Interest rate futures	-	-	-	-
2016				
Interest rate swaps	156,559	82,158	277,861	275,931
Interest rate futures	-	-	-	-

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
2017				
Outflow	409,180	7,391	-	-
Inflow	413,264	7,397	-	-
2016				
Outflow	616,298	1,957	-	-
Inflow	616,346	2,019	-	-

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 €5.7m (2016: €10.1m).

The Bank has pledged €47.7m (2016 €57.9m) worth of investment securities and cash as collateral against its clearing operations.

36. Operational risk

The Bank is exposed to risk of loss arising from failures in systems, internal processes, human error and from external events. The Bank actively manages operational risk including cyber security 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 Bank 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.

37. Capital management and risk

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

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

Europe Arab Bank's capital comprises net equity of €278m (2016: €312m) and perpetual subordinated liabilities of €104m (2016: €239m). 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 and consolidation adjustments.

The Bank's Internal Capital Adequacy Assessment Process (ICAAP) document sets out the details of its approach to measuring, monitoring and controlling capital risk and to managing its capital.