Company Registration No. 5575857

Europe Arab Bank plc

Annual Report and Financial Statements

31 December 2020

Europe Arab Bank plc
Annual Report and Financial Statements 2020

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Europe Arab Bank plc
Directors, officers and professional advisers

Directors

Mr. Nemeh Sabbagh	Chairman
Mr. Haytham Kamhiyah	Chief Executive Officer
Mr. Mohammad Shoaib Memon	Chief Operating Officer
Mr. Quentin Aylward	Independent Non-Executive Director
Sir Edward Leigh	Independent Non-Executive Director
Mr. Eric Modave	Non-Executive Director
Mr. Ghassan Tarazi	Non-Executive Director

Executive Management

Mr. Haytham Kamhiyah	Chief Executive Officer
Mr. Mohammad Shoaib Memon	Chief Operating Officer
Mr. Andrew Wilson	Head of Legal
Mr. Charles Pickin	Chief Risk Officer
Mr. Dhar Solanki	Money Laundering Reporting Officer
Ms. Ekaterina Mihova	Head of Human Resources
Mr. Iyad Quttaineh	Head of Private Banking
Mr. Kim Tran	Head of Corporate & Institutional Banking
Mr. Neil Turnnidge	Head of Treasury
Mr. Samir El-Sukhun	Head of Credit
Mr. Thomas Noone	Head of Regulatory Compliance

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 plc ("EAB", "EAB plc" or "the Bank") provides as its core businesses Corporate & Institutional Banking ("CIB"), Private Banking and Treasury services to its clients, focusing on business transacted between the UK, Europe & North America and the Middle East & North Africa ("MENA").

EAB plc 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.

On 31 March 2020, as part of EAB plc's preparations for the exit of the UK from the European Union (EU), the assets and liabilities of the European branches of EAB plc located in Paris, Cannes, Frankfurt and Milan were transferred to a newly established wholly owned EU banking subsidiary of EAB plc, Europe Arab Bank SA ("EAB SA")[1]. EAB SA is authorised and regulated by the the French banking regulator, the Autorité de Contrôle Prudentiel et de Résolution (ACPR). The EAB group comprising EAB plc and EAB SA operates through six offices in four European countries, focusing on business transacted between Europe & North America and the Middle East & North Africa ("MENA").

The Bank entered Covid-19 crisis in a strong liquidty and capital position and deployed contingency plans very effectively and quickly. The results for 2020 however have been impacted as discussed later in the report.

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 the UK, 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 preferred bank of choice for clients active in the UK, 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 our key markets to support the

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[1] Incorporated in France as a Société Anonyme with registered no. 844 842 278 R.C.S. Paris. Due to French legal requirements, one share in EAB SA is owned by another member of the Arab Bank Group, AB Consolidated Investments Limited.

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, inclusive of our subsidiary in France, Europe Arab Bank SA, have offices in key strategic European centres: London, Paris, Frankfurt, and Milan.

The key activities of the three main business units are:

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 and Paris (EAB SA). 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-UK/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.

Europe Arab Bank plc
Strategic Report (continued)

Financial Review

EAB's net profit after taxation for 2020 was €0.5mn (2019: €2.2mn). The Income Statement below include results of EAB's UK operations for full year 2020 and include results of EAB's operations in Paris, Cannes, Milan and Frankfurt up to 31 March 2020, the effective date of transfer to the new subsidiary. 2019 results below have also been restated for comparison purposes in the Strategic Report.

Operating Profit (€mn)	**2020**	**2019**
Net interest & similar income	22.5	30.7
Net fee & commission income	7.1	6.4
Other income (net)	4.4	3.8
Net Operating Income	34	40.8
Total Operating Expenses	(29)	(33.8)
Operating profit before impairment loss expense and tax expense as reported in the Income Statement	5	7
Impairment loss expense	(4.5)	(1.6)
Tax (charge)/credit	(-)	(1.4)
Underlying Operating Profit for the year	**0.5**	**4**

Net interest & similar income ("NII") and net fee & commission income for 2020 have been lower with reduced business activity following the onset of Covid-19 pandemic. Furthermore, the reduction in interest rates globally have also impacted the results.

Operating expenses reduced considerably as the Bank worked on containing its employee and controllable costs with reduced business activity.

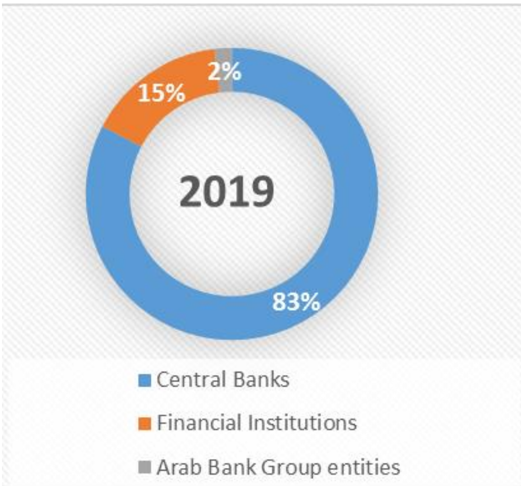
Impairment related charges at €4.5mn (2019:€0.7mn) have increased for 2020 primarily as a result of Covid-19. The macroeconomic shock resulting from the pandemic has caused increased forbearance levels and migration of accounts from Stage 1 to Stages 2 and 3.

Europe Arab Bank plc
Strategic Report (continued)

Statement of Financial Position (€mn)	**2020**	**2019**
Cash and balances with banks and sister companies	746	1,026
Securities	586	781
Loans and advances to customers	890	1,167
Other assets	133	79
Total assets	**2,355**	**3,053**
Deposits by and due to banks and sister companies	835	750
Deposits by customers	1,089	1,847
Other liabilities	54	62
Total liabilities less Tier 2 capital	1,978	2,659
Tier 2 capital	102	111
Shareholder's equity	275	283
Total capital and liabilities	**2,355**	**3,053**
Customer related contingent liabilities and commitments	**738**	**1,096**

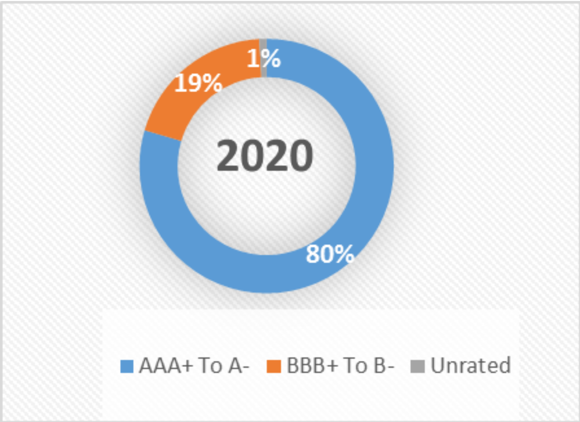
Cash and balances with banks and securities principally relate to Treasury's assets and are primarily for liquidity purposes as well as generating a return on surplus liquidity. The increase in balance with subsidiaries during 2020 relates to placements with central bank via EAB SA. The securities balance largely comprises highly rated sovereign and multilateral institutional holdings for liquidity purposes and highly rated financial institutions.

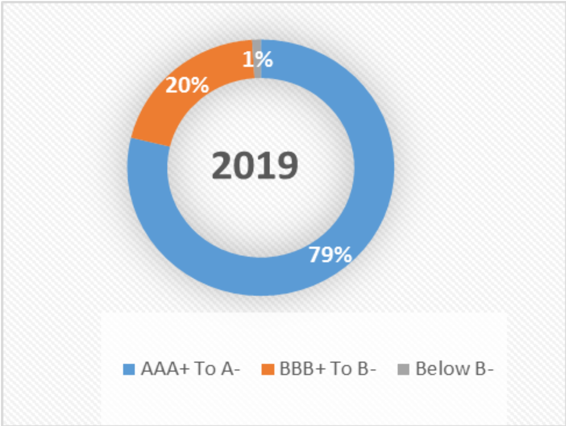
Cash and balances with banks and sister companies



Europe Arab Bank plc
Strategic Report (continued)

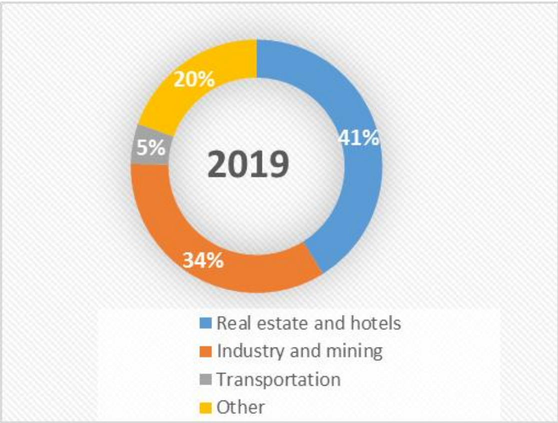
Securities



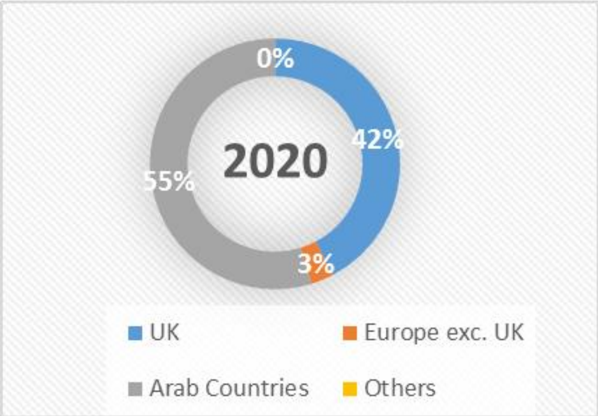


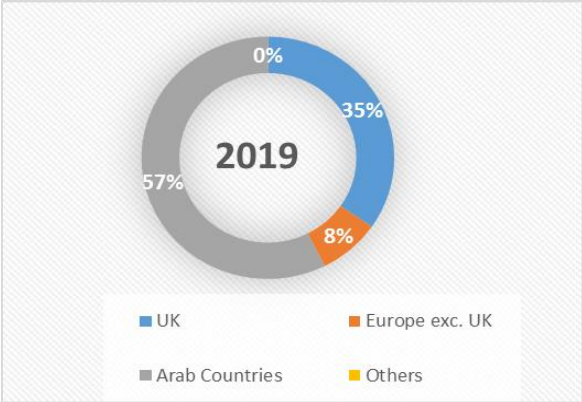
Loans and advances to customers largely comprises of corporate lending to MENA active clients, project financing, real estate lending (residential and commercial) for prime UK properties and short-term trade related discounting and financing facilities.

Loans and advances to customers by sector



Loans and advances to customers by geography

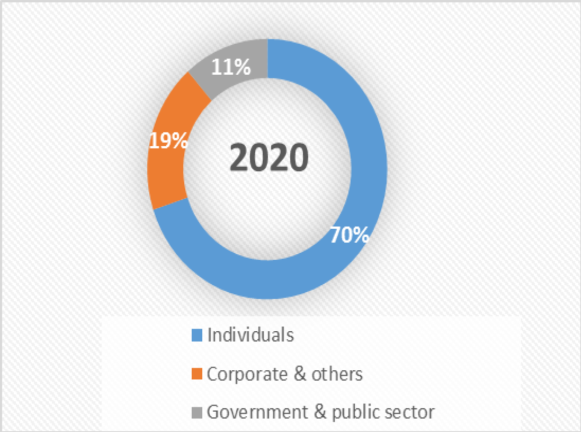


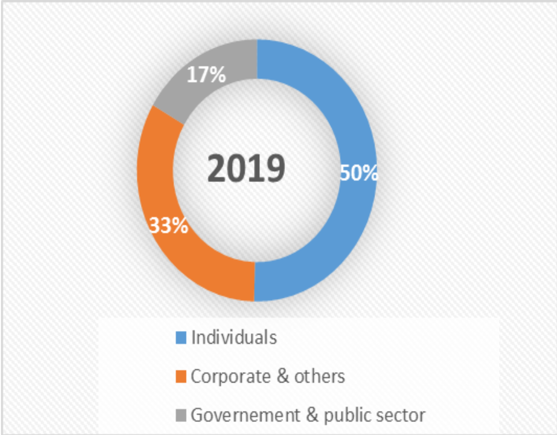


Europe Arab Bank plc
Strategic Report (continued)

Deposits by customers remain diversified between 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 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.

Europe Arab Bank plc
Strategic Report (continued)

Other Key Performance Indicators

EAB uses other Key Performance Indicators ("KPIs") to identify and monitor trends in the performance of the strategies employed. These KPIs are reviewed on a regular basis and form an integral part of the decision making process. The KPIs generally reflect an improvement in EAB's performance compared to 2019.

KPI	Description	2020	2019
Loan to customer deposit ratio	Represents EAB's ability to fund its lending from core deposits generated	82%	64%
Capital adequacy ratio	Measures EAB's financial strength, expressed as a ratio of total capital to risk weighted assets	22%	21%
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 classified assets* (excluding collateral)	32%	59%
Adjusted cost to Income Ratio	Measures operational efficiency of the business and the returns generated	75%	83%
Return on opening equity	Measures EAB's return generated on shareholder's equity	0.19%	0.79%
Return on assets	Measures return generated on total assets	0.02%	0.07%

** Classified assets are the lowest internally rated exposures.*

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 takes a conservative approach to market risk and will not take unnecessary risks in order to make short-term gains;
- EAB closely manages and controls all liquidity and funding risks in order to strongly protect our depositors;
- EAB maintains healthy capital ratios, with headroom over any regulatory constraints;
- EAB has limited appetite for operational losses that may arise from doing business;
- EAB has no tolerance for regulatory breaches or delays in regulatory reporting;
- The Bank has zero appetite for unfair customer outcomes arising from any part of the customer lifecycle, including product design, sales, service and strategy and culture; and
- The Bank has no tolerance for ineffective financial crime systems and controls and no appetite for any relationship with parties that do not comply with our Financial Crime policies and controls.

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.The Bank's policy is to recognise an impairment allowance based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss),

Risk	Risk Mitigation and Management
	unless there has been no significant increase in credit risk since origination, in which case the allowance is based on the 12 months' expected credit loss. The Bank assesses when a significant increase in credit risk has occurred based on quantitative and qualitative assessments. Expected Credit losses ("ECL") have increased in the year to 31 December 2020, primarily as a result of Covid-19. The macroeconomic shock resulting from the pandemic has caused increased forbearance levels and migration of accounts from Stages 1 and 2 to Stage 3. ECL has also increased as a result of the IFRS 9 macroeconomic adjustments and management has made further adjustments to modelled outputs where considered appropriate. Other counterparty exposures are broadly unchanged, with the majority of our liquidity requirements and surplus funding placed with the central banks and high quality securities. We continue to closely monitor Covid-19 impacts which could increase the risk of higher credit losses in the future. Further details on loans and advances to customers and debt securities held are set out in notes 14 and 15 on pages 63 to 66 of the financial statements. Our approach to credit risk management and monitoring is outlined in more detail in note 34 on pages 87 to 99.
Liquidity	
The risk that EAB does not have sufficient financial resources to meet its obligations as they fall due or EAB's business model develops in a way that causes difficulty in attracting adequate funding on reasonable terms. This also includes the risk that EAB experiences unexpected and/or acute liquidity shocks.	EAB follows a conservative approach to liquidity risk. EAB manages liquidity risk by maintaining adequate reserves, a liquidity portfolio, banking facilities and reserve borrowing facilities and by continuously monitoring and reviewing actual and forecast cash flows (both stressed and unstressed). An assessment of liquidity needs, known as the Internal Liquidity Adequacy Assessment Process ("ILAAP"), is undertaken at least annually and is presented to various governance committees for review, challenge and approval. The ILAAP describes how liquidity risks are assessed, controlled, monitored, mitigated and reported and helps the management determine what might be required to maintain liquidity assuming certain stressed conditions. In addition, reverse stress testing is also performed. In response to Covid-19, EAB's Treasury successfully migrated management of funding and liquidity operations to remote working. The Assets and

Risk	Risk Mitigation and Management
	Liabilities Committee (ALCO) met more regularly to oversee the day to day management of liquidity and funding by Treasury and ensuring the maintenance of sufficient headroom to both internal and external liquidity 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 2020, and throughout the year, EAB's liquidity exceeded the regulatory requirements.
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. Interest rate risk has increased during the year with base rates currently at historic lows, increasing the potential for a negative rate environment. Where relevant, systems have been tested and confirmed as able to support negative rates. The traded market risk environment has also been affected by Covid-19 and its impact on the economy and driving elevated volatility. The sensitivity analysis on interest rate exposures shown in note 35 demonstrates the limited level of exposure to interest rate and foreign exchange movements.

Operational

EAB is exposed to various operational risks through its day-to-day operations, all of which have the potential to result in financial loss or adverse impact.

Losses typically crystallise as a result of inadequate or failed internal processes, people, models and systems, or as a result of external factors.

Impacts to the business, customers, third parties and the markets in which we operate are considered within a maturing framework for resilient end-to-end delivery of critical business services.

EAB seeks to maintain its operational resilience through effective management of operational risks, including by:

sustaining robust operational risk management processes, governance and management information;

identifying key systems, third party relationships, processes and staff;

investing in technology to provide reliable customer service offerings;

attracting, retaining and developing high-quality staff through the operation of competitive remuneration and benefit structures and an inclusive environment that embraces diversity and recognises behaviours aligned to our cultural attributes;

investing in cyber security including expertise, tools and staff engagement;

maintaining focus on personal data protection;

adopting fraud prevention and detection capabilities aligned with our risk profile; and

planning strategic and operational responses to severe but plausible stress scenarios.

Existing incident and crisis management capabilities were mobilised upon the emergence of Covid-19, enabling the business to sustain operations whilst adjusting to new ways of working.

Despite the challenges arising from Covid-19, improvements are continuing across the operational risk framework including further enhancement of information security management and strengthening of the Bank’s operational resilience.

Capital

This is the risk of having insufficient or inadequate economic or regulatory capital to support EAB's risk-taking activities. The risk may also arise from inadequacies in assessing the overall and future risks to which EAB may be exposed to on a stressed basis, leading potentially to a failure to plan, maintain and raise capital as appropriate.

Also included therein is the risk of insufficient or inadequate capital to support EAB's pension obligations.

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

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

An internal assessment of capital needs, ("the ICAAP"), is undertaken at least annually and is presented to the various governance committees for review, challenge and approval. The ICAAP describes how risks are assessed, controlled, monitored, mitigated and reported, and helps management determine what might be required to maintain EAB's solvency assuming certain stressed conditions. In addition, reverse stress testing is also performed.

While Covid-19 has affected capital generation due to lower than expected profits, EAB has operated with 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 2020, and throughout the year, EAB's capital exceeded the regulatory requirements.

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 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

Financial Crime

Financial crime risk is the risk of:

- Failing to establish systems and controls that meet legal and regulatory obligations in relation to financial crime;
- Becoming involved with criminal or terrorist property, or entering into arrangements to facilitate the laundering of criminal or terrorist property; or
- Falling victim to criminals who exploit EAB's products and services.

EAB has no tolerance for regulatory breaches nor any relationships with parties that do not comply with our financial crime policies, procedures, and controls.

We are committed to maintain effective financial crime systems and controls and continue to look for ways to enhance our financial crime risk management framework and strengthen the governance processes, including: developing enhanced risk monitoring and management capabilities, establishment and communication of appropriate policies and procedures, and delivering risk-based training to employees.

Notes 33 to 38 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 Statement of Financial Position in light of adjustments in respect of certain reserves.

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

Employee Remuneration Policy

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

The purpose of the Policy is to:

- Attract and retain people with the appropriate experience, competencies (technical and behavioural), knowledge and skills to deliver the strategy and plans;
- Incentivise employees to deliver sustained performance consistent with the strategy and objectives and effective risk management;
- Encourage behaviour consistent with the culture, values and principles of good governance; and
- Deliver remuneration that is affordable and appropriate being in line with market practices and rates, employment market conditions and EAB's performance and ability to pay.
- Operate a fair and objective pay system, free from gender or other discriminatory bias in line with Equality Act 2010.

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.

Climate Change

EAB recognises that financial services companies have an important part to play in supporting the transition to a carbon neutral economy and addressing the risks posed by climate change. EAB has been a leading provider of finance to the renewable energy sector in the MENA region for a number of years, supporting projects for wind, solar and hydro power developments. EAB is also aware of its responsibility to protect natural resources and act sustainably and continues to monitor ways to lower energy consumption, reduce emissions and increase recycling. Risk of financial loss resulting from the physical or transitional impacts of climate change on the business model is also an emerging risk.

Our climate risk forum now meets regularly to assess and determine our responses to the risks, opportunities and regulatory developments related to climate change, with oversight from the Chief Risk Officer and ultimately the Board. A project is in place to develop our climate risk framework in line with regulatory expectations. As a financial services organisation that appreciates the challenge of climate change, we recognise the importance of considering the risks that it poses to our operations and the way in which climate change impacts our business model. Careful consideration of environmental factors and potential risks now plays an integral role in the actions we take, alongside thoughtful evaluation of where opportunities may arise for EAB to make a meaningful difference through our business decisions.

IBOR reform

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Bank has established a project to manage the transition for any of its contracts that could be affected. The Head of Treasury is the Senior Manager responsible for the delivery of IBOR Transitions and the project includes senior representatives from functions across the Bank. During 2020, the Bank has put in place detailed plans, processes and procedures to support the transition in line with the regulatory expectations and milestones. Further details are included in Note 35 of the financial statements.

Section 172 Statement

In performing their duty to act in the way they consider, in good faith, would be most likely to promote the success of the Bank for the benefit of its shareholder, the Directors have had regard to the matters set out in s172 (a-f) of the Companies Act 2006. In particular:

a) **the likely consequences of any decision in the long term**

The Board regularly reviews and approves the three-year strategic plan and monitors its implementation. As part of the review process, the Directors consider the long-term consequences of the Plan. During 2020 in light of Covid-19, the Board's focus has been on ensuring the Bank's operational and financial resilience and prudent management of capital and liquidity in line with the Bank's conservative risk appetite. In taking key principal decisions, some examples of which are set out under 'principal decisions – examples' below, the Board is consistently focussed on the long term consequences of such decisions for the success of the Bank.

b) **the interests of the company's employees**

The Board understand that the Bank's employees are fundamental to the long-term success of the Bank, and the Bank aims to be a responsible employer in its approach to pay and benefits. The health, safety and well-being of the Bank's employees are primary considerations for the way in which the Bank conducts its business. Such matters are regularly discussed and considered by the Board and the Nomination and Remuneration Committee, with particular consideration being given in 2020 to issues relating to remote working during the COVID 19 lockdown. There is regular engagement with staff in a variety of ways, including a well attended 2020 Town Hall meeting, rounded off with a lively and insightful Q&A session.

c) **the need to foster the company's business relationships with suppliers, customers and others**

The Bank's customers are at the heart of what it does and examples of the Board's customer-centric focus in its principal decision-making are included in the table below. The Board recognises that, for the Bank to be successful over the long term, it is important to build and maintain successful relationships with a wide range of stakeholders and for the Board to understand the views of key stakeholders. When taking decisions, the Board considers the interests of, and impact on, key stakeholders, including the Bank's shareholder, customers, regulators, employees and suppliers. Some noteworthy initiatives relating to suppliers have been the introduction of a new Third Party Management and Outsourcing Policy and annual review of the Modern Slavery Statement, both approved by the Board. Examples of ways in which other key stakeholder interests have been considered by the Board in making principal decisions are noted below.

d) **the impact of the company's operations on the community and the environment**

While the operations of the Bank by their nature have a limited direct impact on the environment, the Directors are aware of the need to work to minimise such impacts. In terms of its lending activities, the Bank has been a leading provider of finance to the renewable energy sector in the MENA region for a number of years, supporting projects for wind, solar and hydro power developments. Further details about the actions being undertaken to support the environment have been included under the Climate Change section above.

e) **the desirability of the company maintaining a reputation for high standards of business conduct**

As is reflected in EAB's Corporate Governance Code, the Board sets the tone for the Bank's culture, including maintaining the highest standards of integrity in the Bank's dealings with its customers and other stakeholders. A number of the Bank's Policies regularly reviewed and approved by the Board are relevant to the maintenance of such standards. These are supported by regular management reporting to the Board on matters including conduct training, customer complaints and breaches.

f) **the need to act fairly as between members of the company.**

The Bank is owned by a sole shareholder. The Board ensures that matters are referred to the sole shareholder in line with each company's Articles of Association and relevant statutory requirements.

Principal decisions – examples

Below are two major examples of how stakeholder interests have been considered in principal decisions taken by the Board.

Decision	Stakeholders	How stakeholder interests were considered
European operations post-Brexit In order to mitigate the loss of branch and cross-border financial services passporting rights into the EU27 post-Brexit, the Board approved the transfer of substantially the whole banking book of Europe Arab Bank plc's French, German and Italian branches into a newly established French subsidiary of EAB plc, an EU credit institution approved and regulated by	Customers Employees Suppliers Regulators	EAB's desire to continue serving the ongoing banking needs of our EU27 corporate customer base, and those of our private banking customers with accounts in France, without interruption due to Brexit, was the key driver for this decision and the significant investment involved. The Board extends its thanks to the Bank's customers for their support through the process. Substantially all of EAB plc's European branch employees were transferred to the new subsidiary. Additional staff were hired in order to further strengthen key functions, including risk and compliance. An important objective in the project was to minimise impact of the business transfer on suppliers. Extensive contact was maintained with the relevant regulators throughout the authorisation and subsidiary establishment process.
Covid-19 With the full support of the Board, EAB was able to seamlessly switch to remote working for the majority of staff following the introduction of lockdown. The Board was kept regularly informed and updated on the impacts of Covid-19 and mitigations undertaken. Investments were made to achieve continuity of operations. In appropriate cases, affected	Customers Employees	The Bank's customers have been its principal focus during the pandemic. The Board wishes to thank EAB's employees for their commitment, energy and hard work during the pandemic, which have played a huge role in the success of the measures taken to ensure seamless continuity of the Bank's operations during lockdown

customers were supported by the Bank with payment holidays.		conditions. The Board has received regulator updates on the risk assessments, social distancing and hygiene measures, and re-configuration of the workspace undertaken for the safety of staff attending, and on mental welfare communications with staff,
	Regulators	The Bank's regulators have been regularly updated on Covid-19 related impacts and mitigations.

Going Concern Basis

The business activities together with the performance and position, the principal risks and uncertainties and factors likely to affect EAB's 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 continues to have a strong, proven and conservative business model. Whilst the impact of Covid-19 has lowered profitability during the year, EAB remains well positioned in each of its core businesses and is strongly capitalised, soundly funded and has access to the required levels of liquidity.

As part of the Directors' consideration of the appropriateness of adopting the going concern basis in preparing the Annual Report, a range of forward-looking severe, but plausible, scenario analyses have been considered. The scenarios modelled are based on a range of economic assumptions. The Bank in all such scenarios is expected to continue to operate with sufficient levels of liquidity and capital for next twelve months, with the capital ratios and capital resources in excess of regulatory requirements. In making this assessment, the Directors have also considered the operational resilience of the Bank, noting that the business has successfully adapted to new ways of working and that operational and system performance have been maintained, and are expected to continue to be.

In conclusion, the Directors have determined that there is no material uncertainty that casts doubt over the Bank's ability to continue as a going concern for the next 12 months from the date of the approval of these financial statements. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report.

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 Bank will continue with its plans of closer alignment with the parent, Arab Bank plc.

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

- Covid-19 has significantly impacted global economic activity and has increased uncertainty regarding future economic conditions and the resulting impact on our clients. While a range of measures to support individuals and businesses have been introduced, their long-term effectiveness and impact on the broader competitive environment remain uncertain. We continue to focus on supporting our clients, whilst maintaining our prudent lending and investment standards;
- Continued geopolitical instability in the MENA region and the impact of volatile oil prices may affect key markets and clients including new business and existing exposures;
- Credit losses have increased in the year to 31 December 2020, primarily as a result of Covid-19 as discussed above. Expected Credit Loss ("ECL") has increased as a result of the IFRS 9 macroeconomic adjustments and management has made further adjustments to modelled outputs where considered appropriate. We continue to closely monitor Covid-19 impacts as well as potential impact of Brexit on the UK economic outlook. These factors could increase the risk of higher credit losses in the future;
- Existing incident and crisis management capabilities were mobilised upon the emergence of Covid-19, enabling the business to sustain operations whilst adjusting to new ways of working. Notwithstanding, the current pandemic may lead to increased risks associated with people, operational process execution, third party management, information security and fraud. The Bank continues to utilise its operational risk management framework to manage these risks with oversight by relevant committees. Improvements are continuing across the operational risk framework including further enhancement of information security management and strengthening of the Bank's operational resilience; and
- Further significant changes to the regulatory or legislative environment could have a bearing on how the business operates.

Approved by the Board on the 24 February 2021 and signed on its behalf by:

Andrew Wilson
Company Secretary
13 -15 Moorgate
London
EC2R 6AD

Date: 3 March 2021

Europe Arab Bank plc
Corporate Governance

The Board of Directors of EAB ("the Board") is responsible for the overall governance of the Company. The Board is committed to ensuring that the Company maintains high standards of corporate governance. In 2020 the Board approved the latest revision of the Europe Arab Bank plc Corporate Governance Code incorporating the Principles set out in the latest revision of the UK Corporate Governance Code (the 'UK Code'), modified as considered appropriate for an organisation of the Company's size and type. The UK Code is not itself directly applicable to the Company.

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

The primary responsibilities of the Board include:

- Setting the Company's strategy taking into account 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 Company and its position as a going concern;
- Reviewing major developments in business lines and support units;
- Reviewing the priorities for allocating capital and operating resources;
- Monitoring of regulatory compliance and financial crime oversight and reputational issues;
- Reviewing the market, credit and liquidity risks and exposures with additional oversight and control over credit risk management; and
- Reviewing the application of stress tests and appropriateness of the Company's stress testing policy.

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

The Board has compiled a list of matters reserved for which the Board's approval is required and has delegated authority and responsibility for day-to-day management of the Company to the Chief Executive Officer, who is supported 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 committee's composition, responsibilities and administration:

- Board Audit & Risk Committee
- Nomination & Remuneration Committee

Board Audit & Risk Committee

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

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

The membership of the Committee comprises three Non-Executive Directors, two of whom (Mr Quentin Aylward and Sir Edward Leigh) 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 Chief Operating Officer (who also performs the combined function of chief financial officer), the Head of Finance, the Head of Internal Audit, the Chief Risk Officer, Money Laundering Reporting Officer, Head of Regulatory Compliance, and the External Auditors regularly attend meetings.

Key activities of the Committee for the year ended 31 December 2020 included:

- Met regularly to review quarterly reports received from the Executive Risk & Compliance Committee, Head of Internal Audit and the Money Laundering Reporting Officer and Head of Regulatory Compliance. Seven meetings took place during the year;
- Reviewed and recommended for approval the Company's Annual Report 2019 and Financial Statements;
- Received quarterly updates from the Company's Senior Statutory Auditor and reviewed the Auditor Independence and Non-Audit Services Policy; reviewed and discussed risks associated with EAB Defined Benefit Pension Scheme; received regular updates from EAB SA (including on Risk and Compliance);
- Reviewed the Company's ICAAP and associated Board decision-making processes as well as the Company's ILAAP, and the Company's approach to reverse stress testing; and the Company's Recovery Plan and KRIs;
- Reviewed the Company'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; in line with the Committee's responsibility to annually review the Effectiveness of EAB's Systems of Material Internal Controls the Committee reviewed a document entitled 'Controls Effectiveness during COVD-19 Remote Working.'

Board Audit & Risk Committee (continued)

- Reviewed the Company's Risk Dashboards and critical risks reported to the Board by the Chief Risk Officer and reviewed Risk Activities 2021; the Committee was updated on the steps the Bank was taking in addressing the risks posed by Climate Change.
- Reviewed the Internal Audit Plan for 2021, the Internal Audit Charter, and the adequacy of the Internal Audit Function. Following the Committee's approval of the Internal Audit Budget in consultation with Executive Management, the Board confirmed that they were satisfied that Internal Audit has appropriate resources to deliver the Internal Audit Plan for 2021;
- Reviewed various compliance and financial crime prevention related policies, the Financial Crime Risk Appetite as well as various Treasury related policies; reviewed the Company's Client Assets Sourcebook (CASS) Management Framework and associated policies and terms of reference; and reviewed the Company's Money Laundering Reporting Officer's report.
- Reviewed the Company's Whistleblowing Systems and Controls;
- Reviewed the Company's Responsibilities Map, Conduct Risk Management Framework Policy and Conduct Risk Appetite Statement and KPIs;
- Reviewed the Company's Third Party Management and Outsourcing Policy and Framework and EAB Operational Risk Policy;
- Oversight of remediation exercises where control deficiencies have been identified;
- Conducted an annual self-assessment by way of a comprehensive performance effectiveness evaluation questionnaire covering all aspects of the workings of the Committee; and the results of the evaluation of the effectiveness of the external auditors was considered;

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 Company'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 2020 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 Company's Remuneration Policy and Remuneration Policy Statement;

Nomination & Remuneration Committee (continued)

- Reviewed the Succession Plan for Senior Management; and
- Reviewed Committee's Terms of Reference

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

Executive Committee

The Executive Committee represents the principal forum for conducting the business of the Company and takes day-to-day responsibility for the efficient running of the business. Whilst retaining the overall responsibility for the matters within its remit, the Executive Committee has delegated certain responsibilities to the following standing sub-committees:

- Asset & Liability Committee (ALCO)
- Executive Risk & Compliance Committee (ERCC)
- Executive Credit Committee (ECC)
- EAB Projects Oversight Committee (EPOC)
- IT Service, Security & Governance Committee (ITSSG)

Europe Arab Bank plc
Directors' Report

The Directors present their annual report on the affairs of Europe Arab Bank plc ("EAB" or "the Bank"), together with the Strategic Report, Corporate Governance Report, Financial Statements and Auditor's Report, for the year ended 31 December 2020. 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 €0.5m (2019: €2.2m). The Directors do not propose any dividend to be paid for 2020 (2019:€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 33 to Note 38 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(w).

Post-balance Sheet Events

There are no unadjusted or reportable events subsequent to the statement of financial position date.

Directors

The Directors who served during the year were as follows:

Mr. Nemeh Sabbagh – Chairman

Mr. Haytham Kamhiyah (Chief Executive Officer) - Executive Director

Sir Edward Leigh – Independent Non-Executive Director

Mr. Quentin Aylward – Independent Non-Executive Director

Mr. Eric Modave – Non-Executive Director

Mr. Ghassan Tarazi – Non-Executive Director

Mr. Mohammad Shoaib Memon (Chief Operating Officer) – Executive Director (appointed on 21 05 2020)

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.

Energy and emissions report for the period 1 January 2020 to 31 December 2020

Energy consumption used to calculate emissions (kWh)*	1.06m kWh
Emissions in metric tonnes CO2 equivalent	224.96 tCO2e
Intensity ratio	
Emissions per average number of permanent employee in the UK	1.96

*This energy consumption includes gas and electricity only. The Bank is currently formulating a process to reasonably collect information on other energy consumptions including transportation.

The Bank has followed the 2019 HM Government Environmental Reporting Guidelines. We have also used the GHG Reporting Protocol – Corporate Standard and have used the 2020 UK Government's Conversion Factors for Company Reporting.

The chosen intensity measurement ratio is total gross emissions in metric tonnes CO2e per average number of permanent employee in the UK.

During the year, the Bank has upgraded to a more energy efficient boilers.

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 admirable dedication and commitment to EAB, even in the face of most challenging circumstances during 2020.

Approved by the Board on the 24 February 2021 and signed on its behalf by:

a.J.W

Andrew Wilson
Company Secretary
13 -15 Moorgate
London
EC2R 6AD

Date: 3 March 2021

Europe Arab Bank plc
Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual 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 Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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:

- Select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company financial position and financial performance;
- In respect of the parent company financial statements, state whether international accounting standards in conformity with the requirements of the Companies Act 2006, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is appropriate to presume that the company and/ or the group will not continue in business.

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.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, directors' report, and corporate governance statement that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- that the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- that we consider the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position, performance, business model and strategy.

Approved by the Board on the 24 February and signed on its behalf by:

a.D. Wilson

Andrew Wilson
Company Secretary
13 -15 Moorgate
London, EC2R 6AD

Date: 3 March 2021

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

Opinion

We have audited the financial statements of Europe Arab Bank Plc ("the Bank") for the year ended 31 December 2020 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 38, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law, international accounting standards and the provisions of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the Bank's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; 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. 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Bank's ability to continue to adopt the going concern basis of accounting included the following:

- We obtained an understanding of management's going concern assessment process and engaged with management early to ensure that all key factors were considered in their assessment;
- We developed an understanding of how the bank managed liquidity and capital during 2020;
- We obtained management's going concern assessment for the period up to 2 March 2020. This assessment includes liquidity and capital adequacy analyses and a reverse stress scenario. We evaluated the risks included in the assessment as well as those included in management's reverse stress test and downside sensitivity analyses;
- We read the ICAAP and ILAAP and considered the different stress scenarios and management's actions set out to manage any stresses;
- We performed a benchmarking analysis against peer banks for regulatory ratios;

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

- We have assessed the historical accuracy of management's profit forecasts through checking the reasonableness of the assumptions included within those forecasts and comparing prior years budgeted financial information with historical actual results;
- We performed inquiries with the group auditors of the Bank's parent, Arab Bank Plc, relating to their going concern procedures and results of their assessment, in order to identify any matters that may impact the Bank's going concern assumption as the Bank benefits from many business opportunities via the Arab Bank group network;
- We reviewed all FCA and PRA correspondence and minutes of all Board of Directors meetings, to check for any information that might impact the going concern assumption; and
- We assessed the Bank's going concern disclosures in the Annual Report and Accounts to determine whether they were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for a period to 2 March 2022 being 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Bank's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	•Allowance for expected credit losses (ECL) •Improper recognition of fee and commission income
Materiality	•Overall materiality of €5.51m (2019: €5.7m) which represents 2% of the Bank's total equity.

An overview of the scope of our audit
Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Bank. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Bank and effectiveness of controls, including 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 with the exception of (i) specific audit work on IT systems which are centrally managed by Arab Bank Group, which was performed by EY Jordan under our instruction and supervision by the EY Dubai valuations team working under our instruction and supervision.

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

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.

<u>**Risk**</u>	<u>**Our response to the risk**</u>	<u>**Key observations communicated to the Audit Committee**</u>
Allowance for expected credit losses Loans and advances to customers amount to €890.3 million (2019: €1,167 million) net of allowances for expected credit losses of €48.3 million (2019: €50.5 million). Off balance sheet ("OBS") credit exposures amounted to €738.5 million (2019: €1,096 million), net of allowances for expected credit losses of €1.40 million (2019: €1.34 million). Refer to the strategic report (pages 2-19), accounting policies (note 1), and notes 8, 14 and 29 of the financial statements. The process for estimating impairment in accordance with IFRS 9 is significant and complex. Given the subjective nature of the calculation of ECL, the level of estimation involved and the size of the loan portfolio there is a greater risk of material misstatement in these balances There is a risk that the calculated expected credit loss (ECL) or staging assessments are inaccurate due to inappropriate or incorrect data, assumptions and calculations in the ECL model. This includes the historical default data (both	We took the following approach in response to the risk: • Walked through and understood any changes to the ECL calculation process since the prior year; • Assessed the design effectiveness of key controls within the relevant processes and tested the operating effectiveness of those controls on which we placed reliance; • We engaged EY specialists to carry out an assessment of the ECL model used to calculate ECL for stages 1 and 2. This included analysing how the model is implemented, the governance over the model, and the approach taken by the Bank to monitor inputs to and outputs from the ECL model. In addition, we performed benchmarking to peers on the outputs produced (Probability of Default (PDs), Loss Given Default (LGDs), ECL). Furthermore, we assessed the directional response of the ECL to the 3 macroeconomic scenarios; • Tested the data inputs into the ECL model for completeness and accuracy; • Assessed and challenged management on the scenarios and probability weightings assigned to the macroeconomic factors included in the ECL model; • Evaluated the ECL Model's macroeconomic variable factors and narratives for reasonableness given our knowledge of the Bank's portfolio and the countries and/or industries within which they have exposure; • Performed a check for publicly available	Based on our assessment of the ECL model, the inputs applied and outputs, we deemed the modelled ECL and staging, including any post model adjustment to be materially appropriate. Based on our procedures on the individual provisioning of stage 3 exposures, we concluded that the individual provisioning is materially appropriate. Based on our additional procedures to address the increase in provision risk due to Covid-19, we concluded that the post model adjustments applied by management are reasonable. We challenged management on the appropriateness of macroeconomic factors, scenarios and probabilities for its loan portfolio considering the Covid-19 environment, whether significant increase in credit risk occurred for a number of loans, post model adjustment applied and

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

<table>
<tr><th><u>Risk</u></th><th><u>Our response to the risk</u></th><th><u>Key observations communicated to the Audit Committee</u></th></tr>
<tr><td>internal and external) and risk attributes used to build and run the models, which may be incomplete, inaccurate or non-representative of the portfolio. Further, forward looking elements relevant to the portfolio might not be incorporated in the ECL appropriately. For stage 3 exposures, there is the risk that assumptions used in the individual provisioning model are unreasonable and the rationale applied within the scenarios are not appropriate.

The risk for 2020 has increased this year as a result of COVID-19 and the uncertainty it creates in relation to assessing expected credit losses.</td><td>information on all material credit exposures, and in addition, for Middle Eastern exposures, inquired with individuals in EY’s Middle East network, in order to identify any significant increase in credit risk factors that have not been identified by management;

• Performed an assessment for a sample of loans and Off-Balance Sheet credit exposures allocated as stage 1, and all material exposures in stage 2, to determine the reasonableness of the staging allocation and to seek to identify any significant increase in credit risk or indicators of impairment not identified by the Bank. The assessment included consideration of information on the credit files, arrears statistics, watch list, and related documentation and, where appropriate, collateral arrangements and valuations; For all material assets in stage 3, we performed a credit file review and tested the individual impairment models and the evidence supporting the assumptions made by the Bank; and

• Engaged our valuation specialists to challenge the assumptions in the valuations provided by management’s external specialists on the underlying collateral values for relevant stage 3 exposures.

In addition to the above we performed the following additional procedures to address the increase in credit risk as a result of COVID-19:

• Challenged management on the conclusions in relation to exposures for which payment holidays have been granted by assessing the borrower’s credit history and financial performance during the year and independently checked for any early warning signals, and, where appropriate, collateral arrangements and valuations; and

• Challenged management’s post-model adjustments, assessing the rationale and calculation behind the adjustment.</td><td>adequacy of ECL booked against stage 3 loans. We concurred materially with management’s conclusions</td></tr>
</table>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Improper recognition of Fee and Commission Income Fee and commission income from off balance sheet credit exposures amounted to €4.7 million (2019: €7,4 million). Refer to the accounting policies (note 1) and note 3 of the financial statements. The key risks of improper recognition of fee and commission income arises from those related to off-balance sheet exposures as they are subject to manual inputs and judgements to the amount and timing of recognition. The risk is the same as in 2019.	We took the following approach in response to the risk: • Assessed, with the assistance of EY IT audit professionals, the design effectiveness and tested the operating effectiveness of key controls over fee and commission income; • We agreed a sample of fees and commissions to source data and the underlying contracts; • Using that source data, we recalculated the fees and commission income recognised for the year across the full population to test that the fees and commissions have been recognised or deferred appropriately; • We agreed to supporting evidence any adjustments to the accounting records that have characteristics that we have identified that could indicate unusual or inappropriate adjustments; and • Performed year end cut off testing to check that fee and commission income is recognised in the correct period.	As a result of the procedures performed, we did not identify any evidence of material misstatement in the recording of fees and commission income from off-balance sheet exposures.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on 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 Bank to be €5.51 million (2019: €5.7 million), which is 2% (2019: 2%) of the Bank's equity. We determined our materiality based on equity rather than income-based measures since 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.

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

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 performance materiality was 50% (2019: 50%) of our planning materiality, namely €2.7m (2019: €2.8m).

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 €0.27m (2019: €0.28m), which is set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate 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. The directors are responsible for the other information contained within the annual report.
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.

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 course of 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 themselves 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.

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

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 set out on page 26, 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 the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Bank and management.

- 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, Markets in Financial Instruments Directives (MifID 1 and 2), and relevant Prudential Regulation Authority and Financial Conduct Authority regulations.
- We understood how the Bank complies with those 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. 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 significant items inappropriately held in suspense and tested journal entries with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business.
- As the audit of a bank 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.

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 by the Bank on 17 February 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is four years, covering the years ending 31 December 2017 to 31 December 2020.

- 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.

Use of our report

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.

Ernst & Young LLP

Kenneth Eglinton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
10 March 2021

Europe Arab Bank plc
Income Statement for
Year ended 31 December 2020

Continuing operations	**Notes**	**Year ended 31 December 2020 €'000**	**Year ended 31 December 2019 €'000**
Interest income using the effective interest method	2	44,028	72,057
Other interest and similar income	2	4,065	6,587
Interest and similar expense	2	(20,201)	(45,018)
Other interest and similar expense	2	(5,358)	-
Net interest and similar income		22,534	33,625
Fee and commission income	3	7,670	10,200
Fee and commission expense	3	(546)	(825)
Net trading gains/losses	4	(291)	929
Other operating income	5	4,686	3,736
Net operating income		34,053	47,665
Amortisation of intangible assets	18	(103)	(236)
Depreciation of property, plant and equipment and right-of-use assets	19&20	(2,656)	(3,144)
Other operating expenses	6	(26,292)	(39,450)
Total operating expenses before impairment losses		29,051	(42,830)
Operating profit before impairment loss expense and tax expense		**5,002**	**4,835**
Impairment loss expense	8	(4,482)	(693)
Profit before tax		520	4,142
Tax charge	9	-	(1,900)
Profit for the year		520	2,242
Attributable to:			
Owners of the Company		520	2,242
		520	2,242

Europe Arab Bank plc
Statement of Comprehensive Income for Year ended 31 December 2020

	Year ended 31 December 2020 €'000	Year ended 31 December 2019 €'000
Profit for the year	520	2,242
Items that will not be reclassified subsequently to the Income Statement:		
Re-measurement of net defined benefit pension liability	(6,778)	(2,693)
Items that may be reclassified subsequently to profit or loss:		
Fair value through other comprehensive income assets:		
Fair value (loss)/gain taken to equity on investment in subsidiaries	(1,605)	1,693
Exchange differences on translation of non-Euro denominated operations	(4)	4
Other comprehensive loss for the year	(8,387)	(996)
Total comprehensive (loss)/income for the year	(7,867)	1,246
Attributable to:		
Owners of the Company	(7,867)	1,246

Europe Arab Bank plc
Statement of Financial Position
as at 31 December 2020

	Notes	2020 €'000	2019 €'000
Assets			
Cash and balances at central banks	11	135,518	854,611
Due from banks	12	610,330	171,080
Financial assets at fair value through profit or loss	13	174,601	228,135
Loans and advances to customers	14	890,273	1,167,220
Financial investments at amortised cost	15	411,518	553,080
Derivative financial assets	16	3,204	3,466
Investment in subsidiaries	17	103,308	34,962
Other intangible assets	18	-	103
Property, plant and equipment	19	4,717	4,507
Right-of-use assets	20	2,475	7,608
Other assets	21	14,083	22,261
Deferred tax assets	10	5,409	5,714
Total assets		2,355,436	3,052,747
Liabilities and Equity			
Liabilities			
Deposits by banks	23	835,032	750,286
Deposits by customers	24	1,089,462	1,846,521
Derivative financial liabilities	16	27,603	18,543
Other liabilities	25	8,319	23,779
Current tax liabilities		0	1,408
Lease Liabilities	26	2,635	7,840
Retirement benefit liabilities – defined benefit scheme	22	14,873	9,852
Subordinated liabilities	27	102,191	111,330
Total liabilities		2,080,115	2,769,559
Equity			
Called up share capital	28	569,998	569,998
Retained earnings		(285,717)	(279,459)
Foreign exchange reserve		(17)	(13)
Fair value reserve		(8,943)	(7,338)
Total equity		275,321	283,188
Total liabilities and equity		2,355,436	3,052,747

These financial statements were approved by the Board of Directors and authorised for issue on 24 February 2021.

Signed on behalf of the Board of Directors:

Haytham Kamhiyah
Director
Date: 3 March 2021

Mohammad Shoaib Memon
Director
Date: 3 March 2021

Company Registration No. 5575857

Europe Arab Bank plc
Statement of Changes in Equity for
Year ended 31 December 2020

	Ordinary Share Capital	Fair value Reserve	Foreign Exchange Reserve	Retained Earnings	Total Shareholders Equity
	€'000	**€'000**	**€'000**	**€'000**	**€'000**
As at 31 December 2018	569,998	(9,031)	(17)	(278,659)	282,291
Impact of adopting IFRS 16	-	-	-	(349)	(349)
Restated opening balance at 1 January 2019	569,998	(9,031)	(17)	(279,008)	281,942
Profit for the year	-	-	-	2,242	2,242
Other comprehensive income/(loss)	-	1,693	4	(2,693)	(996)
As at 31 December 2019	569,998	(7,338)	(13)	(279,459)	283,188
Profit for the year	-			520	520
Other comprehensive income/(loss)	-	(1,605)	(4)	(6,778)	(8,387)
As at 31 December 2020	569,998	(8,943)	(17)	(285,717)	275,321

Europe Arab Bank plc
Cash Flow Statement for
Year ended 31 December 2020

	2020 €'000	2019 €'000
Cash flows from operating activities		
Profit/(Loss) before tax, adjusted for:	520	4,142
- Depreciation	1,343	1,201
- Amortisation	103	236
- Impairment loss expense	4,482	693
- Net foreign exchange loss/(gain) on subordinated liability and subsidiary	(9,138)	1,958
- Interest expense on lease liabilities	49	70
	(2,641)	8,300
Decrease/(Increase) in operating and other assets		
Funds advanced to customers	272,465	(91,917)
Funds advanced to banks	(439,250)	130,765
Fair value through profit or loss and derivatives	62,856	57,562
Financial investments	141,562	(20,724)
Other assets	13,310	(10,774)
	50,943	64,912
(Decrease)/Increase in operating and other liabilities		
Customer deposits	(757,059)	146,491
Funds received from banks	84,745	(368,753)
Other liabilities and retirement benefit liabilities	(21,792)	6,455
	(694,106)	(215,807)
Income taxes paid	-	(2,313)
Interest paid on Lease liabilities	(49)	(70)
Net cash (outflows)/inflows from operating activities	(645,853)	(144,978)
Cash flows from investing activities		
Acquisition of property, plant and equipment	(2,005)	(1,758)
Investment in subsidiaries	(69,963)	(5,000)
Net cash outflows from investing activities	(71,968)	(6,758)
Cash flows from financing activities		
Repayment of subordinated liabilities		-
Payment of lease liabilities	(1,272)	(1,879)
Net cash outflows from financing activities	(1,272)	(1,879)
Net (decrease)/increase in cash and cash equivalents	(719,093)	(153,615)
Cash and cash equivalents at 1 January	854,611	1,008,226
Cash and cash equivalents at 31 December	135,518	854,611

Operational cash flows from interest and dividends

Interest Paid	(34,328)	(45,952)
Interest received	46,266	78,576
Dividend received	307	475

Europe Arab Bank plc
Notes to the Financial Statements for
Year ended 31 December 2020

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 office 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 Accounting Standards in conformity with the requirements of the Companies Act 2006. 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. The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Bank, but may impact future periods should the Bank enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. No amendment has been made to any client contracts during the period in relation to Interest Rate Benchmark Reform however the Bank established a project to manage the transition (see note 35 on Libor Reform).

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These

1. Accounting policies (continued)

Adoption of new and revised standards (continued)

Amendments to IAS 1 and IAS 8 Definition of Material (continued)

amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Bank.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Bank.

Standards and revisions effective for future periods:

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment will not have impact on the financial statements of the Bank.

Interest rate benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

On 27 August 2020, the IASB published these amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. With publication of the phase two amendments, the IASB has completed its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

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, financial assets other than those measured at fair value through profit or loss and 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.

Other interest income includes interest on financial assets measured at fair value through profit or loss ('FVPL) and Derivatives using the contractual interest rate.

(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 all of its financial assets based on the business model for managing the assets and the asset's contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest (SPPI)), measured at either:

- Amortised Cost;
- Fair Value through Other Comprehensive Income (FVOCI); and
- Fair Value through Profit or Loss (FVTPL).

Management determines the classification of financial assets at initial recognition.

Financial assets at amortised cost (Due from banks, Loans & advances to customers, Financial investments at amortised cost)

Financial assets that are held in a business model to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are SPPI, are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs.

1. Accounting policies (continued)

Significant accounting policies (continued)

Financial assets at amortised cost (Due from banks, Loans & advances to customers, Financial investments at amortised cost) (continued)

In determining whether the business model is a 'hold to collect' model, the objective of the business model must be to hold the financial asset to collect contractual cash flows rather than holding the financial asset for trading or short-term profit taking purposes. While the objective of the business model must be to hold the financial asset to collect contractual cash flows this does not mean the Bank is required to hold the financial assets until maturity. When determining if the business model objective is to collect contractual cash flows the Bank will consider past sales and expectations about future sales.

Financial assets (Debt and equity instruments) measured at fair value through other comprehensive income (FVOCI)

Financial assets that are debt instruments held in a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are SPPI are measured at FVOCI. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains and losses in other comprehensive income are recognised in the income statement.

When determining if the business model is achieved by both collecting contractual cash flows and selling financial assets, the Bank will consider past sales and expectations about future sales.

For equity instruments that are not held for trading, the Bank may make an irrevocable election to present subsequent changes in the fair value of the instrument in other comprehensive income (except for dividend income which is recognised in profit or loss). Gains or losses on the derecognition of these equity securities are not transferred to profit or loss. These assets are also not subject to impairment requirements and therefore no amounts are recycled to the income statement. Where the Bank has not made the irrevocable election to present subsequent changes in the fair value of the instrument in other comprehensive income, equity securities are measured at fair value through profit or loss.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held for trading are recognised at fair value through profit or loss. In addition, financial assets are held at fair value through profit or loss if they do not contain contractual terms that give rise on specified dates to cash flows that are SPPI, or if the financial asset is not held in a business model that is either (i) a business model to collect the contractual cash flows or (ii) a business model that is achieved by both collecting contractual cash flows and selling. Subsequent changes in fair value are recognised in the income statement.

(e) Impairment of financial assets

The Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and guarantees given to third parties, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

1. Accounting policies (continued)

Significant accounting policies (continued)

(e) Impairment of financial assets (continued)

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

The Bank assesses when a significant increase in credit risk has occurred based on quantitative and qualitative assessments. Exposures are considered to have resulted in a significant increase in credit risk and are moved to Stage 2 when (i) there is a drop in credit rating which is mapped to the relevant PD as defined below (Quantitative test), (ii) Accounts meet the portfolio's 'high risk' criteria and are subject to closer credit monitoring (Qualitative test), (iii) Accounts that are 30 calendar days or more past due.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

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

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

• Stage 1: When financial instruments are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
• Stage 2: When a financial instrument has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
• Stage 3: Financial instruments considered credit-impaired. The bank records an allowance for the LTECLs.
• POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

The calculation of ECLs

The Bank calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

1. Accounting policies (continued)

Significant accounting policies (continued)

(e) Impairment of financial assets (continued)

The calculation of ECLs (continued)

The key elements of the ECL calculations are outlined below:

• PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

• EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

• LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The mechanics of the ECL method are summarised below:

• Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date.

These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

• Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

• Stage 3: For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

• Loan commitments, letters of credit and guarantees given to third parties

When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

The Bank's liability under each guarantee given to third parties is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to guarantees given to third parties are recognised within other liabilities.

The premium received is recognized in the statement of income net of fees and commission income on a straight line basis over the life of the guarantee.

1. Accounting policies (continued)

Significant accounting policies (continued)

(e) Impairment of financial assets (continued)

Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs in the regions in which it operates, such as:

- GDP growth
- Commodity prices
- Unemployment rates
- Central Bank base rates
- House price and stock market indices

Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing their recovery.

(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.

1. Accounting policies (continued)

Significant accounting policies (continued)

(f) Financial liabilities (continued)

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

Other financial liabilities

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

(g) Derecognition of financial assets and liabilities

Financial assets are derecognised when the right to receive cash flows from the assets has expired; or when the 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 at fair value through profit or loss and accounted for in accordance with note 1(d).

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 under IAS 39 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)

Significant accounting policies (continued)

Hedge accounting (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.

Fair value hedges

The Bank applies fair value hedge accounting to keep interest rate sensitivities within its established limits. Applying fair value hedge accounting enables the Bank to reduce fair value fluctuations of fixed rate financial assets as if they were floating rate instruments linked to the attributable benchmark rates. From a hedge accounting point of view, the Bank designates the hedged risk as the exposure to changes in the fair value of a recognised financial asset or liability or an unrecognised firm commitment, or an identified portion of such financial assets, liabilities or firm commitments that is attributable to a particular risk and could affect profit or loss. The Bank only hedges changes due to interest rates such as benchmark rates, which are typically the most significant component of the overall fair value change. The Bank assesses hedge effectiveness by comparing fair value movements of the hedging instruments and the hedged items attributable to changes in these benchmark rates using the hypothetical derivative method as set out above. Within its risk management and hedging strategies, the Bank differentiates between micro and macro fair value hedging strategies, as set out under the relevant subheadings below.

In accordance with its hedging strategy, the Bank matches the principal of the hedging instruments to the principal of the hedged items, including prepayment expectations. The Bank uses pay fixed/receive floating interest rate swaps to hedge its fixed rate debt instruments and loans and pay floating/receive fixed interest rate swaps to hedge its fixed rate liabilities.

Hedge ineffectiveness can arise from:

• Differences in timing of cash flows of hedged items and hedging instruments

• Different interest rate curves applied to discount the hedged items and hedging instruments

• Derivatives used as hedging instruments having a non-nil fair value at the time of designation

• The effect of changes in counterparties' credit risk on the fair values of hedging instruments or hedged items

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.

1. Accounting policies (continued)

Significant accounting policies (continued)

(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 statement of financial position 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 statement of financial position 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 statement of financial position. 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 statement of financial position 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 carried at fair value through other comprehensive income.

(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 statement of financial position 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.

1. Accounting policies (continued)

Significant accounting policies (continued)

(m) Property, plant and equipment (continued)

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

(n) Intangible assets acquired separately

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

Software	5 years

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

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

At each statement of financial position 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.

(o) Leases

The Bank assesses at inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank applied a single recognition and measurement approach for all leases. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Bank recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. Right-of-use assets are depreciated on a straight-line basis over the lease term. The Bank also recognises lease liabilities at the commencement date of the lease, measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments and variable lease payments that depend on an index/rate.

Lease liabilities are recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. After

the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Bank is not exposed to leases as a lessor.

(p) 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 statement of financial position 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 statement of financial position 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 statement of financial position date are included as a liability.

(q) 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.

(r) 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 statement of financial position date, and any adjustment to tax payable in respect of previous year.

1. Accounting policies (continued)

Significant accounting policies (continued)

(r) Taxes (continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position 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 statement of financial position 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.

(s) 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 statement of financial position 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.

(t) 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.

(u) Cash and cash equivalents

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

(v) 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).

(w) 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.

1. Accounting policies (continued)

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 statement of financial position 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 financial assets

The measurement of impairment losses across all categories of financial assets requires judgment. In particular, judgement by management is required in the assessment of a significant increase in credit risk and in the 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.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- The Bank's internal credit rating model, which assigns PDs to the individual grades.
- The Bank's criteria for assessing if there has been a significant increase in credit risk.
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and economic inputs.

(iii) 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.

(iv) Recognition of deferred tax assets

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted therefore recognition involves judgment regarding the future financial performance of the Bank. Significant items on which the Group has exercised accounting judgment include recognition of deferred tax assets in respect of tax losses and capital allowances.

2. Interest and similar income and expense

	Year ended 31 December 2020 €'000	Year ended 31 December 2019 €'000
Interest and similar income from financial assets at amortised cost		
Cash and funds held with central banks	74	534
Due from banks	1,742	9,734
Loans and advances to customers*	30,009	47,300
Financial investments at amortised cost	12,203	14,489
Total interest and similar income	44,028	72,057
Other interest and similar income		
Financial investments measured at fair value through profit or loss	4,065	4,673
Derivatives	-	1,914
	4,065	6,587
	48,093	78,644
Interest and similar expense		
Deposits by banks	(3,449)	(8,778)
Cash and funds held with central banks	(1,989)	-
Customer accounts	(12,924)	(32,682)
Subordinated liabilities	(1,662)	(3,342)
Other	(177)	(216)
Total interest and similar expense	(20,201)	(45,018)
Other interest and similar expense		
Derivatives	(5,358)	-
	(25,559)	(45,018)
Net interest and similar income	22,534	33,625

*Interest income from loans and advances to customers is presented net of impaired interest amounting to €7.55m (2019:€1.37m)

3. Fees and commission income and expense

	Year ended 31 December 2020 €'000	Year ended 31 December 2019 €'000
Banking and credit related fees and income	6,864	9,442
Other commissions and fee income	806	758
Fees and commission income	7,670	10,200
Fees and commission expense	(546)	(825)

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 €102,870 (2019:€86,114).

4. Net trading (losses)/gains

	Year ended 31 December 2020 €'000	Year ended 31 December 2019 €'000
Foreign exchange dealing	934	938
Trading Securities	(1,225)	(9)
	(291)	929

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 2020 €'000	Year ended 31 December 2019 €'000
Revenue from services	58	105
Rental income	458	510
Income from subsidiaries including dividend	3,415	634
Other revenue	755	2,487
	4,686	3,736

6. Other operating expenses

	Year ended 31 December 2020 €'000	Year ended 31 December 2019 €'000
Staff costs (note 7)	14,543	21,534
Administrative expenses	6,690	11,300
Auditor's remuneration (see below)	597	681
Operating lease rentals	-	-
Other expenses	4,413	5,867
Interest expense on lease liabilities	49	68
	26,292	39,450

Auditor's remuneration

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

	Year ended 31 December 2020 €'000	Year ended 31 December 2019 €'000
Fees payable to the Bank's auditor for the audit of the annual financial statements	432	483
Total audit fees	432	483
Other services:		
- Audit related assurance services	143	145
- Other services	22	53
Total non-audit fees	165	198
	597	681

7. Staff costs

	Year ended 31 December 2020 €'000	Year ended 31 December 2019 €'000
Salaries, wages and allowances	11,459	17,272
Social security costs	1,879	2,918
Pension costs – defined benefit scheme (Note 22)	-	8
Pension costs – defined contribution scheme	1,205	1,336
	14,543	21,534

The average number of permanent persons employed by the Bank in 2020 was 115 (2019:132). Of these, 40 (2019: 54) were employed in the strategic business units and credit administration; 55 (2019: 58) were employed in the support units and 20 (2019: 21) were employed in control and risk functions. The total number of permanent persons employed at the end of 2020 was 114 (2019: 133).

8. Impairment loss expense

The table below shows the expected credit losses (ECLs) charges on financial instruments for the year recorded in the income statement:

In €'000	Stage 1	Stage 2	Stage 3	Year ended 31 December
2020				
Due from banks	170	(51)	-	119
Loans and advances to customers	(767)	(2,751)	7,575	4,057
Debt instruments measured at amortised cost	225	-	-	225
Guarantees, letters of credit and other commitments	355	(96)	(178)	81
Total Impairment loss	(17)	(2,898)	7,397	4,482
2019				
Due from banks	109	-	-	109
Loans and advances to customers	631	2,253	(1,186)	1,698
Debt instruments measured at amortised cost	364	(2)	-	362
Guarantees, letters of credit and other commitments	(1,093)	117	(500)	(1,476)
Total Impairment loss	11	2,368	(1,686)	693

9. Tax charge

	Year ended 31 December 2020 €'000	Year ended 31 December 2019 €'000
Current taxation:		
UK corporation tax (credit)/charge for the year	-	-
Foreign tax for current year	-	10
Adjustment in respect of prior years	-	(182)
	-	(172)
Deferred tax charge for the year	215	2,072
Deferred tax – adjustment in respect of prior years	354	-
Rate change movement	(569)	-
Taxation charge	-	1,900

The actual tax charge/(credit) for the year differs from the expected tax charge/(credit) for the year computed by applying the standard rate of UK corporation tax of 19% (2019: 19%) as follows:

	Year ended 31 December 2020 €'000	Year ended 31 December 2019 €'000
Profit before tax	520	4,142
Expected tax charge at 19% (2019: 19%)	99	787
Permanent disallowables	61	41
Foreign profits taxed at other rates	-	10
Adjustment in respect of prior years	354	(182)
Change in tax rate	(569)	-
Movement in unrecognised deferred tax asset	55	1,244
Actual tax charge in Income Statement	-	1,900

At 31 December 2019, a reduction in the main rate to 17% as from 1 April 2020 had been enacted in the UK law and deferred tax balances were valued with reference to the rate of 17%. The Finance Act 2020 kept the main rate of corporate tax at 19% with effect from 1 April 2020. Therefore, the main rate of corporation tax for the current financial year is maintained at 19%. Accordingly, the rate of 19% has been applied in the measurement of the Company's closing deferred tax asset as at 31 December 2020.

10. Deferred tax

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

	Temporary differences		Total	
	2020 €'000	2019 €'000	2020 €'000	2019 €'000
Balance at 1 January	5,714	7,464	5,714	7,464
Recognised in Income Statement	(215)	(2,072)	(215)	(2,072)
Adjustment in respect of prior years	(354)	-	(354)	-
Rate change movement	569	-	569	-
FX (loss)/gain	(305)	322	(305)	322
Balance at 31 December	5,409	5,714	5,409	5,714

	Year ended 31 December 2020 €'000	Year ended 31 December 2019 €'000
The deferred tax asset consists of:		
Accelerated capital allowances	32	879
Pension costs	1,313	1,133
Unpaid remuneration	286	235
Impairment provision	-	-
Unutilised tax losses recognised	3,332	3,112
Adoption of IFRS 9 – ECL take on	370	333
Other temporary differences	76	22
	5,409	5,714

At the statement of financial position date, the Bank has unused tax losses of €364mn (2019: €360mn) and other temporary differences of €22mn (2019: €20mn) available for offset against future profits. A deferred tax asset has been recognised on losses of €18mn (2019: €18mn) and gross temporary differences of €11mn (2019: €15mn). No deferred tax asset has been recognised in respect of the remaining €346mn (2019: €342mn) of losses and €11mn (2019: €5mn) of other temporary differences at the statement of financial position date due to limited certainty with respect to forecasting profits over extended future periods.

11. Cash and balances at central banks

	2020 €'000	2019 €'000
Cash	369	899
Balances with central banks	135,149	853,712
	135,518	854,611

12. Due from banks

	2020 €'000	2019 €'000
Current accounts	617,614	178,880
Time deposits	-	-
Due from banks before impairment	617,614	178,880
Less: impairment loss allowances	(7,284)	(7,800)
	610,330	171,080

Amounts above include:

	2020	2019
Due from parent company	14,791	13,657
Due from fellow subsidiaries	4,929	6,117
Due from subsidiaries	493,515	0
	513,235	19,774

Impairment allowance for due from banks

The table below discloses the credit quality and maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

In €'000

Internal rating grade	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
2020				
1-3 – investment grade	55,843	-	-	55,843
4-5 – standard monitoring	554,771	-	-	554,771
6 – special monitoring	51	-	-	51
7 – watch	-	-	6,949	6,949
8-10 - classified	-	-	-	-
Total	**610,665**	**-**	**6,949**	**617,614**
2019				
1-3 – investment grade	118,976	31,814	-	150,790
4-5 – standard monitoring	744	-	-	744
6 – special monitoring	19,776	-	-	19,776
7 – watch	-	-	7,570	7,570
8-10 - classified	-	-	-	-
Total	**139,496**	**31,814**	**7,570**	**178,880**

12. Due from banks (continued)

Impairment allowance for due from banks (continued)

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

In €'000	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2020	**139,496**	**31,814**	**7,570**	**178,880**
New assets originated or purchased	538,859	-	-	538,859
Assets derecognised or repaid (excluding write offs)	(66,427)	(20,359)	-	(86,786)
Transfers to Stage 1	8,844	(8,844)	-	-
Adjustments during the period	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(10,107)	(2,611)	(621)	(13,339)
At 31 December 2020	**610,665**	**-**	**6,949**	**617,614**
ECL allowance as at 1 January 2020	**174**	**56**	**7,569**	**7,800**
Charged to income relating to new facilities	15	-	-	15
Net charge to income (increase/decrease to staging)	117	-	-	117
Transfers to Stage 1	51	(51)	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Adjustments during the period	-	-	-	-
Recoveries	(13)	-	-	(13)
Amounts written off	-	-	-	-
Foreign exchange adjustments	(10)	(5)	(620)	(635)
At 31 December 2020	**334**	**-**	**6,949**	**7,284**

In €'000	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2019	**301,964**	**-**	**7,437**	**309,401**
New assets originated or purchased	30,360	-	-	30,360
Assets derecognised or repaid (excluding write offs)	(166,072)	-	-	(166,072)
Transfers to Stage 1	-	-	-	-
Adjustments during the period	-	-	-	-
Transfers to Stage 2	(31,813)	31,813	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	5,058	-	133	5,191
At 31 December 2019	**139,496**	**31,813**	**7,570**	**178,880**
ECL allowance as at 1 January 2019	**119**	**-**	**7,437**	**7,556**
Charged to income relating to new facilities	13	-	-	13
Net charge to income (increase/decrease to staging)	125			125
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(56)	56	-	-
Transfers to Stage 3	-	-	-	-
Adjustments during the period	-	-	-	-
Recoveries	(29)	-	-	(29)
Amounts written off	-	-	-	-
Foreign exchange adjustments	3	-	132	135
At 31 December 2019	**175**	**56**	**7,569**	**7,800**

13. Financial investments at fair value through profit or loss

	2020 €'000	2019 €'000
Held for trading – bonds (quoted)	174,601	228,135
	174,601	228,135

14. Loans and advances to customers

	2020 €'000	2019 €'000
Discounted bills	54,273	90,284
Corporate loans and advances	838,970	1,063,432
Other loans and advances	69,358	82,015
Impaired interest	(24,008)	(17,918)
	938,593	1,217,813
Expected credit allowances	(48,320)	(50,593)
	890,273	1,167,220

Impairment allowance for loans and advances to customers

The table below discloses the credit quality and maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

In €'000

Internal rating grade	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
2020				
1-3 – investment grade	156,035	-	-	156,035
4-5 – standard monitoring	427,174	-	-	427,174
6 – special monitoring	224,202	15,329	-	239,531
7 – watch	-	9,315	8,499	17,814
8-10 - classified	-	3,307	94,732	98,039
	807,411	27,951	103,231	938,593
2019				
1-3 – investment grade	209,612	-	-	209,612
4-5 – standard monitoring	532,139	4,838	-	536,977
6 – special monitoring	331,627	70,997	-	402,624
7 – watch	-	-	9,259	9,259
8-10 - classified	-	-	59,341	59,341
	1,073,378	75,835	68,600	1,217,813

14. Loans and advances to customers (continued)

Impairment allowance for loans and advances to customers (continued)

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

In €'000	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2020	**1,073,378**	**75,835**	**68,600**	**1,217,813**
New assets originated or purchased	147,635	191	8,017	155,843
Assets derecognised or repaid (excluding write offs)	(341,555)	(3,457)	(3,313)	(348,325)
Adjustments during the period	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(3,211)	3,211	-	-
Transfers to Stage 3	-	(43,256)	43,256	-
Foreign exchange adjustments	(68,836)	(4,573)	(13,329)	(86,738)
Amounts written off	-	-	-	-
At 31 December 2020	**807,411**	**27,951**	**103,231**	**938,593**
ECL allowance as at 1 January 2020	**5,152**	**3,948**	**41,493**	**50,593**
Charged to income relating to new facilities	922	-	-	922
Net charge to income (increase/decrease to staging)	(459)	(629)	8,142	7,054
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(16)	16	-	-
Transfers to Stage 3	-	-	-	-
Adjustments during the period	-	-	-	-
Recoveries	(1,214)	(2,138)	(567)	(3,919)
Foreign exchange adjustments	(391)	(324)	(5,615)	(6,330)
Amounts written off	-	-	-	-
At 31 December 2020	**3,994**	**873**	**43,453**	**48,320**

In €'000	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2019	981,714	72,097	70,228	1,124,039
New assets originated or purchased	273,890	-	-	273,890
Assets derecognised or repaid (excluding write offs)	(209,138)	(2,258)	(2,947)	(214,343)
Adjustments during the period	-	-	-	-
Transfers to Stage 1	-		-	-
Transfers to Stage 2	(4,838)	4,838	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	31,750	1,158	1,319	34,227
At 31 December 2019	**1,073,378**	**75,835**	**68,600**	**1,217,813**
ECL allowance as at 1 January 2019	4,440	1,661	41,942	48,043
Charged to income relating to new facilities	1,034	-	-	1,034
Net charge to income (increase/decrease to staging)	(403)	2,253	(386)	1,464
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(4)	4	-	-
Transfers to Stage 3	-	-	-	-
Adjustments during the period	-	-	-	-
Recoveries	-	-	(800)	(800)
Foreign exchange adjustments	85	30	737	852
At 31 December 2019	**5,152**	**3,948**	**41,493**	**50,593**

Included in the ECL allowance are assets with a balance of €32.4m (2019: €30.8m) which have been placed under administration and/or liquidation.

15. Financial investments other than those measured at FVPL

Below is an analysis of the Bank's financial investments other than those measured at FVPL:

	2020 €'000	2019 €'000
Debt instruments at amortised cost		
Debt Securities	412,957	554,385
Impairment loss allowance	(1,439)	(1,305)
Total debt instruments at amortised cost	411,518	553,080
Total financial investments other than those measured at FVPL	411,518	553,080

The table below discloses the credit quality and maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

In €'000

Internal rating grade	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
2020				
1-3 – investment grade	321,882	-	-	321,882
4-5 – standard monitoring	53,232	-	-	53,232
6 – special monitoring	37,843	-	-	37,843
7 – watch	-	-	-	-
8-10 - classified	-	-	-	-
Total	412,957	-	-	412,957
2019				
1-3 – investment grade	415,635	-	-	415,635
4-5 – standard monitoring	90,889	-	-	90,889
6 – special monitoring	47,862	-	-	47,862
7 – watch	-	-	-	-
8-10 - classified	-	-	-	-
Total	554,385	-	-	554,385

15. Financial investments other than those measured at FVPL (continued)

Impairment losses on debt instruments measured at amortised cost

An analysis of changes in the gross carrying amount and the corresponding ECLs is as follows:

In €'000	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2020	**554,385**	**-**	**-**	**554,385**
New assets originated or purchased	18,939			18,939
Assets derecognised or repaid (excluding write offs)	(127,353)	-	-	(127,353)
Adjustments during the period	-			-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	(33,014)	-	-	(33,014)
Amounts written off	-	-	-	-
At 31 December 2020	**412,957**	**-**	**-**	**412,957**
ECL allowance as at 1 January 2020	**1,305**	**-**	**-**	**1,305**
Charged to income relating to new facilities	61			61
Net charge to income (increase/decrease to staging)	211	-	-	211
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Adjustments during the period	-	-	-	-
Recoveries	(47)	-	-	(47)
Foreign exchange adjustments	(91)	-	-	(91)
Amounts written off	-	-	-	-
At 31 December 2020	**1,439**	**-**	**-**	**1,439**

In €'000	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2019	**524,576**	**8,708**	**-**	**533,284**
New assets originated or purchased	129,092	-	-	129,092
Assets derecognised or repaid (excluding write offs)	(105,119)	(8,708)	-	(113,827)
Adjustments during the period	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	5,836	-	-	5,836
Amounts written off	-	-	-	-
At 31 December 2019	**554,385**	**-**	**-**	**554,385**
ECL allowance as at 1 January 2019	**926**	**2**	**-**	**928**
Charged to income relating to new facilities	188		-	188
Net charge to income (increase/decrease to staging)	210	-	-	210
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Adjustments during the period	-	-	-	-
Recoveries	(34)	(2)	-	(36)
Foreign exchange adjustments	15	-	-	15
Amounts written off	-	-	-	-
At 31 December 2019	**1,305**	**-**	**-**	**1,305**

16. 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 33.

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 statement of financial position, 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 statement of financial position 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.

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.

16. Derivatives (continued)

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

	2020			2019		
	Notional	Fair value asset	Fair value liability	Notional	Fair value asset	Fair value liability
	€'000	€'000	€'000	€'000	€'000	€'000
Derivatives held for trading						
Interest rate swaps	203,172	1,529	7,016	368,673	1,991	4,980
Currency forward contracts	477,653	736	8,651	493,858	344	7,715
	680,825	2,265	15,667	862,531	2,335	12,695
Derivatives used as fair value hedges						
Interest rate swaps	503,503	939	11,936	588,733	1,131	5,848
Total recognised derivative assets and liabilities	1,184,328	3,204	27,603	1,451,264	3,466	18,543

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, debt securities at amortised cost and other borrowed funds. The Bank uses interest rate swaps and interest rate futures to hedge interest rate risk.

The impact of the hedged item on the statement of financial position as at 31 December 2020 is as follows:

Hedged item	Carrying amount	Accumulated amount of fair value adjustments
Fixed-rate loans	61,421	1,152
Fixed-rate debt securities at amortised cost	334,857	8,270

Fixed-rate loans are included under 'Loans and advances to customers' whereas fixed-rate debt securities at amortised cost are included under 'Financial investments at amortised cost on the statement of financial position.

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

	2020 €'000	2019 €'000
(Losses)/gains on:		
Hedging instruments	(6,486)	9,115
Hedged items attributable to the hedged risk	5,887	(9,211)
Hedge ineffectiveness	(599)	(96)

Hedge ineffectiveness is included under Net trading gains in the Income Statement.

17. 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, except for Europe Arab Bank SA for which the registered address is 41 Avenue de Friedland, 75008 Paris, France.

Name	Place of incorporation	Proportion of ownership and voting power held	Principal activity	Cost 2020	Cost 2019
13-15 Moorgate No. 1 Limited	England and Wales	100%	General partner to property partnership	€14.2m	€14.9m
13-15 Moorgate No.2 Limited	England and Wales	100%	General partner to property partnership	€14.2m	€14.9m
EAB Client Assets Nominee Limited	England and Wales	100%	Dormant	€111	€111
Europe Arab Bank SA	France	100%*	Banking	€75m	€5m

* 1 share is owned by AB Consolidated Investments LTD

Movement in value of investment in subsidiaries

	2020 €'000	2019 €'000
As at 1 January	34,962	28,217
Translation adjustments	(1,617)	1,745
Additions	69,963	5,000
As at 31 December	103,308	34,962

On 31 March 2020, following formal approval by the Board of Directors and the Shareholder, the Bank transferred the businesses, assets and liabilities, and employees of its French, German and Italian branches to Europe Arab Bank SA ('EAB SA') by way of a contribution of the business of each branch in return for issuance of 1.4m additional shares of 0.05 Euro each to the Bank. The contribution was subject to the spin-off regime provided for in the pertinent articles of the French Commercial Code. In line with this regime, it was agreed that the assets and liabilities of the French Branch were contributed based on their net book value assessed on the basis of the accounts of the Bank as at 31 December 2019. In line with applicable laws, the assets and

liabilities of the Italian Branch and of the German Branch were contributed based on the book value as at 31 March 2020.

Immediately following the contribution on 31 March 2020, the Bank contributed further capital totalling €69.9m to EAB SA by way of cash contribution and subscription of 68.5m new ordinary shares with a par value of 1 Euro, fully paid up in cash, increasing the total issued share capital of EAB SA to €75m.

18. Other intangible assets

	2020 €'000	2019 €'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	(1,079)	(842)
Charge for the year	(103)	(236)
As at 31 December	(1,182)	(1,079)
Net book value		
As at 1 January	103	340
As at 31 December	-	103

19. 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 2019	290	7,442	1,820	12,684	22,236
Additions	-	573	27	1,158	1,758
Disposals	-	-	-	-	-
At 31 December 2019	290	8,015	1,847	13,842	23,994
Accumulated depreciation and impairment losses					
As at 1 January 2019	-	(6,265)	(1,226)	(10,797)	(18,288)
Depreciation	-	(234)	(148)	(819)	(1,201)
Disposals	-	-	-	-	-
At 31 December 2019	-	(6,499)	(1,374)	(11,616)	(19,489)
Net book value	290	1,516	473	2,226	4,507
Cost					
As at 1 January 2020	290	8,015	1,847	13,842	23,994
Additions	-	111	82	1,812	2,005
Disposals	(290)	(2,458)	(616)	(861)	(4,225)
At 31 December 2020	-	5,668	1,313	14,793	21,774
As at 1 January 2020	-	(6,499)	(1,374)	(11,616)	(19,488)
Depreciation		(222)	(154)	(966)	(1,343)
Disposals		2,374	614	786	3,774
At 31 December 2020		(4,347)	(914)	(11,796)	(17,057)
Net book value		1,321	399	2,997	4,717

20. Right-of-use assets

	2020	2019
	€'000	€'000
As at 1 January	7,608	6,385
Additions	-	3,269
Disposals	(3,820)	(103)
Depreciation charge for the year	(1,313)	(1,943)
As at 31 December	2,475	7,608

21. Other assets

	2020 €'000	2019 €'000
Prepayments	2,713	5,452
Current tax receivable	1,005	1,062
Accrued interest receivable	7,967	12,709
Other assets and receivables	2,398	3,038
	14,083	22,261
Amounts above include:		
Due from parent company	33	89
Due from fellow subsidiaries	2,156	2,230

22. Retirement benefits – defined benefit scheme

The Bank sponsors the scheme 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 417 past employees as at 31 December 2020 (31 December 2019: 417). 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, usually taking place every three years, was carried out as at 31 December 2018 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 2018 showed a deficit of €8.6m. The Bank has agreed with the trustees that it will aim to eliminate the deficit over a period of 4 years from 1 January 2020 by the payment of annual contributions of €1.6mn 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 2018 has been updated on an approximate basis to 31 December 2020. 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

	2020 €'000	2019 €'000	2018 €'000	2017 €'000	2016 €'000
Defined benefit obligation	(87,584)	(80,125)	(66,753)	(74,693)	(79,474)
Fair value of plan assets	72,711	70,274	59,026	65,652	67,166
Net deficit	(14,873)	(9,852)	(7,727)	(9,040)	(12,308)
Net liability recognised	(14,873)	(9,852)	(7,727)	(9,040)	(12,308)

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

	2020 €'000	2019 €'000
Balance as at 1 January	80,125	66,753
Current service cost	-	-
Interest cost	1,555	1,969
Actuarial losses/(gains)	12,085	8,505
Benefits paid	(1,984)	(1,364)
Past service costs	165	-
Translation adjustments	(4,362)	4,262
Balance as at 31 December	87,584	80,125

(c) Changes in the fair value of plan assets

	2020 €'000	2019 €'000
Balance as at 1 January	70,274	59,026
Interest Income	1,376	1,760
Employer contributions	1,577	1,440
Return on assets excluding interest income	5,264	5,658
Benefits paid	(1,984)	(1,364)
Translation adjustments	(3,796)	3,754
Balance as at 31 December	72,711	70,274

The actual return on the plan assets for the year ended 31 December 2020 was €6.59m (2019: €7.65m).

22. Retirement benefits – defined benefit scheme (continued)

(d) Total expense recognised in the income statement

	2020 €'000	2019 €'000
Staff costs (Note 7)	-	8
Net interest cost	179	209
Service cost	167	-
	346	217

The total expense includes a past service cost due to a plan amendment of €0.17m. This has arisen following a High Court case on 20 November 2020 which ruled that transfers out of the plan, between 17 May 1990 and 28 October 2018, need to be revisited and equalised for GMP (if applicable).

(e) Total amount included in other comprehensive income

	2020 €'000	2019 €'000
Return on plan assets (excluding amounts included in net interest cost)	5,265	5,658
Experience gains/ (losses)	436	714
Effects of change in demographic assumptions	(773)	265
Effects of change in financial assumptions	(11,747)	(9,485)
Translation adjustments	41	155
	(6,778)	(2,693)

(f) Assets

	2020 €'000	2019 €'000
UK equities	1,717	1,664
Overseas equities	12,306	10,910
Corporate bonds	10,145	5,409
Diversified growth fund	13,995	13,498
Property	4,976	5,437
Fixed interest	-	5,285
Cash	941	228
Liability driven investment	8,931	8,704
Structured credit	964	988
Insured Assets	17,754	18,151
Index linked gilts	982	-
Balance as at 31 December	72,711	70,274

22. Retirement benefits – defined benefit scheme (continued)

(g) Principal assumptions in determining the defined benefit obligation

	2020 %		2019 %	
	Liabilities	Assets	Liabilities	Assets
Discount rate	1.40	1.25	2.06	1.97
Expected rate of salary increases	N/A	N/A	N/A	N/A
Expected rate of inflation (RPI)	2.95	3.00	2.75	2.85
Expected rate of inflation (CPI)	2.15	2.20	1.85	1.95
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 2020	21.9
Female retiring in 2020	23.6
Male retiring in 2040	23.2
Female retiring in 2040	25.1

(h) Sensitivity

	Change in assumption	**Change in liabilities**
Discount rate	Decrease of 0.25% p.a.	Increase by 4.7%
Rate of inflation	Increase of 0.25% p.a.	Increase by 1.6%
Rate of mortality	Increase of life expectancy of 1 year	Increase by 3.3%
Commutation	Members commute an extra 10% of Post A Day pension on retirement	Decrease by 0.8%

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 2020 is 18 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 statement of financial 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.

23. Deposits by banks

	2020 €'000	2019 €'000
Due to other banks	835,032	750,286
	835,032	750,286
Amounts above include:		
Due to parent company	125,736	364,513
Due to fellow subsidiaries	67,855	34,121
Due to subsidiaries	365,198	0
	558,789	398,634

The deposits by banks also include repurchase agreements amounting to €32.5mn as at 31 December 2020. These are fixed rate term deposits with interest rates ranging from 0.5% - 0.7% with maturity dates within 3 months.

24. Customer accounts

	2020 €'000	2019 €'000
Deposits by customers	1,089,462	1,846,521
	1,089,462	1,846,521

25. Other liabilities

	2020 €'000	2019 €'000
Accruals	2,292	9,605
Deferred income	933	1,278
Accrued interest payable	2,960	10,266
Other payables and liabilities	2,134	2,630
	8,319	23,779
Amounts above include:		
Due to parent company	23	132
Due to fellow subsidiaries	10	87

26. Lease Liabilities

	2020 €'000	2019 €'000
Maturity analysis – contractual undiscounted cash flows		
Less than one year	672	1,960
One to five years	2,157	4,347
More than five years	-	1,739
Total undiscounted lease liabilities at 31 December	2,829	8,048
Lease liabilities included in the balance sheet at 31 December	2,635	7,840

27. Subordinated liabilities

	2020 €'000	2019 €'000
USD 125 million floating rate notes LIBOR plus 0.50%	102,191	111,330
	102,191	111,330

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.

As discussed in note 35, the Bank has established a project to manage the transition from IBOR. The Notes have been identified by the project for transition. The life of USD Libor was extended in the 4th quarter of 2020 out to the end of June 2023. As a legacy contract this does not need to be converted in 2021.

28. Share capital

	2020 €'000	2019 €'000
Authorised and issued share capital		
50,000 (2019 - 50,000) deferred shares of £1 each	72	72
569,925,540 (2019 - 569,925,540) fully paid up ordinary shares of €1 each	569,926	569,926
As at 31 December	569,998	569,998

29. 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.

	2020 €'000	2019 €'000
Letters of credit	85,994	73,224
Acceptances	215	1,672
Guarantees given to third parties	589,496	968,510
Unused credit facilities and forward contract trades	62,822	53,697
Total before impairment	738,527	1,097,103
Impairment loss allowance	(1,395)	(1,344)
	737,132	1,095,759

29. 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.

Impairment losses on contingent liabilities and commitments

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating and year-end stage classification.

In €'000

Internal rating grade	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
2020				
1-3 – investment grade	63,097	-	-	63,097
4-5 – standard monitoring	571,679	32,272	-	603,951
6 – special monitoring	40,086	27,273		67,359
7 – watch	-	-	-	-
8-10 – classified	-	-	4,120	4,120
Total	674,862	59,545	4,120	738,527
2019				
1-3 – investment grade	103,260	-	-	103,260
4-5 – standard monitoring	860,816	27,564	-	888,380
6 – special monitoring	75,327	19,991	-	95,318
7 – watch	-	5,287	660	5,287
8-10 – classified	4,023	-	175	4,858
Total	1,043,426	52,842	835	1,097,103

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29. Contingent liabilities and commitments (continued)

An analysis of changes in the outstanding exposures and the corresponding ECLs are as follows:

In €'000	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2020	**1,043,427**	**52,841**	**835**	**1,097,103**
New assets originated or purchased	329,660	52,768	164	382,592
Assets derecognised or repaid (excluding write offs)	(666,575)	(41,740)	(835)	(709,150)
Adjustments during the period	-	-	-	-
Transfers to Stage 1	6,890	(6,890)	-	-
Transfers to Stage 2	(3,822)	3,822	-	-
Transfers to Stage 3	(3,956)	-	3,956	-
Foreign exchange adjustments	(30,762)	(1,256)	-	(32,018)
Amounts written off			-	
At 31 December 2020	**674,862**	**59,545**	**4,120**	**738,527**
ECL allowance as at 1 January 2020	**1,049**	**117**	**178**	**1,344**
Charged to income relating to new facilities	85	-	18	103
Net charge to income	618	(31)	-	587
Assets derecognised or repaid (excluding write offs)	(346)	(85)	(178)	(609)
Adjustments during the period				
Transfers to Stage 1	19	(19)	-	-
Transfers to Stage 2	(39)	39	-	-
Transfers to Stage 3	-	-	-	
Recoveries	-	-	-	--
Foreign exchange adjustments	(25)	(5)	-	(30)
Amounts written off	-	-	-	-
At 31 December 2020	**1,361**	**16**	**18**	**1,395**

In €'000	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2019	**1,160,217**	**-**	**175**	**1,160,392**
New assets originated or purchased	256,545	1,867	-	258,412
Assets derecognised or repaid (excluding write offs)	(337,204)	-	-	(337,204)
Adjustments during the period	-	-	660	660
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(50,975)	50,975	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	14,844	-		14,844
Amounts written off	-	-	-	-
At 31 December 2019	**1,043,427**	**52,841**	**835**	**1,097,103**
ECL allowance as at 1 January 2019	**2,132**	**-**	**-**	**2,132**
Charged to income relating to new facilities	487	3	-	490
Net charge to income	(948)	-	(500)	(1,448)
Assets derecognised or repaid (excluding write offs)	(527)	-	-	(527)
Transfers to Stage 1	-	-	678	678
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	(115)	115	-	-
Recoveries	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Amounts written off	10	-	-	10
At 31 December 2019	**1,049**	**117**	**178**	**1,344**

30. 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	
	2020 €'000	2019 €'000	2020 €'000	2019 €'000	2020 €'000	2019 €'000	2020 €'000	2019 €'000	2020 €'000	2019 €'000
Parent company	110	973	290	673	14,795	13,714	125,759	364,644	5,063	10,449
Subsidiaries	3,229	475	896	1,820	367,062	1,463	501,239	7,587	-	-
Fellow subsidiaries*	754	1	1,981	4,296	27,476	6,117	170,046	145,537	13,215	17,812
Associates**	9	4	29	84	19,322	254	-	29,079	948	2,583
Other related parties***	792	1,235	430	1,152	15,923	21,129	39,873	22,491	-	-
	4,894	2,688	3,626	8,024	444,578	42,677	836,917	569,338	19,226	30,844

* 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.

*** Amounts owed by other related parties includes ECL of €0.8mn (2019: €1.6mn).

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 (2019: €nil).

(b)Compensation of key management personnel

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

	2020 €'000	2019 €'000
Key management compensation		
Short-term employee benefits	4,865	4,899
Post-employment benefits	171	447
	5,036	5,346

30. Related party disclosure, including Directors' emoluments (continued)

The information above includes executive Directors' remuneration detailed below.

	2020 €'000	2019 €'000
Directors' emoluments		
Chairman and Executive Directors - emoluments	1,979	1,612
- retirement and termination benefits	68	120
	2,047	1,732
Non-Executive Directors - emoluments	174	177
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 €1.5 million (2019: €1.2 million).

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.

	2020 No. of persons	2020 €'000	2019 No. of persons	2019 €'000
Loans	5	595	6	733
Deposits	7	16,461	6	17,419

The transactions with directors, 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.

31. 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 except for the foreign exchange movement which is revalued through the fair value reserve.

31. Fair values of financial instruments (continued)

	2020 Level 1 €'000	2020 Level 2 €'000	2020 Level 3 €'000	2020 Total €'000
Financial assets at fair value through profit or loss				
- Held for trading	161,307	13,294	-	174,601
Derivative financial instruments – assets		3,204	-	3,204
Investment in subsidiaries	-	-	103,308	103,308
Total	161,307	16,498	103,308	281,113
Derivative financial instruments – liabilities	-	27,603	-	27,603
Total	-	27,603	-	27,603

There have been no transfers between level 1 and level 2 (2019: nil).

	2019 Level 1 €'000	2019 Level 2 €'000	2019 Level 3 €'000	2019 Total €'000
Financial assets at fair value through profit or loss				
- Held for trading	214,268	13,867	-	228,135
Derivative financial instruments – assets	-	3,466	-	3,466
Investment in subsidiaries	-	-	34,962	34,962
Total	214,268	17,333	34,962	266,563
Derivative financial instruments – liabilities	-	18,543	-	18,543
Total	-	18,543	-	18,543

Reconciliation of Level 3 fair value measurements of financial assets

	2020 €'000	2019 €'000
Balance at 1 January	34,962	28,217
Net additions and settlements	69,963	5,000
Fair value gain in income statement		-
Translation adjustment	(1,617)	1,745
Balance at 31 December	103,308	34,962

31. 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:

	2020 Fair value €'000	2020 Book value €'000	2019 Fair value €'000	2019 Book value €'000
Financial investments at amortised cost	412,455	411,518	555,115	553,080
Total	412,455	411,518	555,115	553,080

The Bank did not hold any material compound instruments or embedded derivatives at the year end (2019: €nil).

32. 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 non-related customer or counterparty amounted to 10% or more of the total revenue of the Bank in 2020 or 2019.

32. Operating segments (continued)

2020

	CIB €'000	Treasury €'000	Private Banking €'000	Other €'000	Total €'000
Net operating income	23,632	7,890	1,247	2,502	35,271
Inter-segment revenue	(5,709)	(4,908)	8,759	640	(1,218)
Total operating revenue	17,923	2,982	10,006	3,142	34,053
Net business unit contribution after allocated expenses	7,325	(2,774)	(64)	515	5,002
Impairment loss expense	671	(967)	(4,186)	-	(4,482)
Profit/(loss) before tax	7,996	(3,741)	(4,250)	515	520
Tax credit/(expense)	-	-	-	-	-
Profit/(loss) for the year	7,996	(3,251)	(4,250)	25	520

2019

	CIB €'000	Treasury €'000	Private Banking €'000	Other €'000	Total €'000
Net operating income	40,295	15,335	(12,225)	(490)	42,915
Inter-segment revenue	(14,504)	(8,340)	25,591	2,002	4,750
Total operating revenue	25,791	6,995	13,366	1,512	47,665
Net business unit contribution after allocated expenses	9,971	(1,494)	(3,407)	(235)	4,835
Impairment loss expense	1,731	(429)	(1,995)	-	(693)
Profit/(loss) before tax	11,702	(1,923)	(5,402)	(235)	4,142
Tax credit/(expense)	(13)	-	-	(1,887)	(1,900)
Profit/(loss) for the year	11,689	(1,923)	(5,402)	(2,122)	2,242

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

2020

	CIB €'000	Treasury €'000	Private Banking €'000	Other €'000	Total €'000
Segment assets	609,931	765,158	389,114	591,233	2,355,436
Segment liabilities	176,777	417,614	1,355,848	129,876	2,080,115

2019

	CIB €'000	Treasury €'000	Private Banking €'000	Other €'000	Total €'000
Segment assets	992,307	1,569,532	447,961	42,947	3,052,747
Segment liabilities	681,073	523,717	1,431,202	133,567	2,769,559

33. 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 34 to note 38 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.

34. 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 of Directors.

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 (typically construction bonds) 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 CRO.

Impairment

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

The Bank assesses when a significant increase in credit risk has occurred based on quantitative and qualitative assessments. Exposures are considered to have resulted in a significant increase in credit risk when (i) there is a drop in credit rating which is mapped to the relevant PD as defined in 1(e), (ii) Accounts meet the portfolio's 'high risk' criteria and are subject to closer credit monitoring (Qualitative test), (iii) Accounts that are 30 calendar days or more past due.

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs in the regions in which it operates, such as:

• GDP growth
• Commodity prices
• Unemployment rates
• Central Bank base rates
• House price and stock market indices

ECLs are calculated on an individual basis.

34. Credit risk (continued)

The forward looking economic input captures the government's ongoing monetary and fiscal actions to counter the Covid – 19 as well as the negative economic impact of lockdowns experienced across most of Europe.

The ECL Models were refreshed and updated on a more frequent basis and the corresponding data inputs were more current when compared to prior years in order to capture the month on month changes as the pandemic unfolded.

Post-model adjustments

There are likely to be further uncertainties with regards to the potential negative impact that the third national lockdown will have on the wider economy due to Covid-19 pandemic in the UK. For this reason, the Bank decided to maintain a management overlay of €0.9 mn as at 31 December 2020.

All post-model adjustments are reviewed at least quarterly and are subject to strict internal governance and controls.

Covid-19 pandemic relief packages

In order to provide relief for the lockdown measures put in place to contain the Covid-19 outbreak, the Bank offered capital and interest relief predominantly to customers that are within the hotel business in the form of payments deferral. The Bank also provided this relief package to some retail clients whose cash flows were impacted by the lockdowns across the MENA. These payments reliefs were not considered to be substantial modification of the contractual cash flows of the loans to which they were applied. As at 31 December 2020, the total loan exposure under Covid-19 special monitoring amounted to **€**171.5 mn. These were all grouped into Stage 1 for the purpose of ECL. This assessment is in line with the PRA guideline which confirms that offering borrowers the option of a full or partial payment deferral or any alternatives such as extension of term does not automatically signal a significant increase in credit risk (SICR) or that credit impairment has occurred for ECL purposes.

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34. Credit risk (continued)

Quality of Assets

Financial assets split by external ratings, where available, for 2020 and 2019 (excluding derivatives):

	31 December 2020				
	Cash, balances with central banks and due from banks	Loans and advances to customers	Financial assets at amortised cost	Guarantees, letters of credit and unused credit facilities	Total
	€'000	€'000	€'000	€'000	€'000
Neither past due nor impaired					
Stage 1					
AAA to AA-	160,625	-	210,976	46,701	418,302
A+ to A-	38,091	-	95,069	1,660	134,820
BBB+ to B-	542,027	10,249	106,912	184,115	843,303
Below B	-	31,105	-	11,044	42,149
Unrated	5,439	766,057	-	431,341	1,202,837
	746,182	807,411	412,957	674,861	2,641,411
Stage 2					
AAA to AA-	-	-	-	-	-
A+ to A-	-	-	-	-	-
BBB+ to B-	-	-	-	49,099	49,099
Below B	-	-	-	-	-
Unrated	-	27,951	-	10,446	38,397
	-	27,951	-	59,545	87,496
Past due but not impaired	-	-	-	-	-
Individually impaired					
Stage 3					
AAA to AA-	-	-	-	-	-
A+ to A-	-	-	-	-	-
BBB+ to B-	-	-	-	-	-
Below B	6,949	-	-	1,670	8,619
Unrated	-	103,231	-	2,451	105,682
	6,949	103,231	-	4,121	114,301
Gross	753,131	938,593	412,957	738,527	2,843,208
ECLs					
Stage 1	334	3,994	1,439	1,361	7,128
Stage 2	-	873	-	16	889
Stage 3	6,949	43,453	-	18	50,420
	7,283	48,320	1,439	1,395	58,437
Net	745,848	890,273	411,518	737,132	2,784,771

34. Credit risk (continued)

Quality of Assets (continued)

	31 December 2019				
	Cash, balances with central banks and due from banks	Loans and advances to customers	Financial assets at amortised cost	Guarantees, letters of credit and unused credit facilities	Total
	€'000	€'000	€'000	€'000	€'000
Neither past due nor impaired					
Stage 1					
AAA to AA-	863,929	-	224,689	13,273	1,101,891
A+ to A-	110,009	-	177,481	64,769	352,259
BBB+ to B-	14,058	106,540	152,215	334,369	607,182
Below B	-	24,328	-	-	24,328
Unrated	6,112	942,510	-	631,015	1,579,638
	994,108	1,073,378	554,385	1,043,426	3,665,298
Stage 2					
AAA to AA-	31,803	-	-	-	31,803
A+ to A-	10	-	-	-	10
BBB+ to B-	-	-	-	27,564	27,564
Below B	-	-	-	3,191	3,191
Unrated	-	75,835	-	22,087	97,922
	31,813	75,835	-	52,842	160,490
Past due but not impaired	-	-	-	-	-
Individually impaired					
Stage 3					
AAA to AA-	-	-	-	-	-
A+ to A-	-	-	-	-	-
BBB+ to B-	-	-	-	-	-
Below B	7,570	-	-		7,570
Unrated	-	68,600	-	835	69,435
	7,570	68,600	-	835	77,005
Gross	1,033,491	1,217,813	554,385	1,097,103	3,902,793
ECLs					
Stage 1	174	5,152	1,305	1,049	7,681
Stage 2	56	3,948	-	117	4,121
Stage 3	7,570	41,493	-	178	49,241
	7,800	50,593	1,305	1,344	61,043
Net	1,025,691	1,167,220	553,080	1,095,759	3,841,750

34. Credit risk (continued)

Quality of Assets (continued)

Internal ratings are mapped to a range of external ratings but also take into account other behavioural aspects of the counterparty and historical performance:

Quality of assets split by Bank's internal credit rating system (excluding derivatives):

	31 December 2020				
	Cash, balances with central banks and due from banks	Loans and advances to customers	Financial assets at amortised cost	Guarantees, letters of credit and unused credit facilities	Total
	€'000	€'000	€'000	€'000	€'000
Stage 1					
1 - 3 - investment grade	220,828	155,976	321,617	62,146	760,567
4 - 5 - standard monitoring	524,969	426,221	53,027	571,381	1,575,598
6 - special monitoring	51	221,220	36,874	39,973	298,118
-7 - watch	-	-	-	-	-
8 - 10 - classified	-	-	-	-	-
	745,848	803,417	411,518	673,500	2,634,283
Stage 2					
1 - 3 - investment grade	-	-	-	-	-
4 - 5 - standard monitoring	-	-	-	32,266	32,266
6 - special monitoring	-	14,511	-	27,263	41,774
7 - watch	-	9,277	-	-	9,277
8 - 10 - classified	-	3,290	-	-	3,290
	-	27,078	-	59,529	86,607
Stage 3					
1 - 3 - investment grade	-	-	-	-	-
4 - 5 - standard monitoring	-	-	-	-	-
6 - special monitoring	-	-	-	-	-
7 - watch	-	4,249	-	-	4,249
8 - 10 - classified	-	55,529	-	4,103	59,632
	-	59,778	-	4,103	63,881
Net	745,848	890,273	411,518	737,132	2,784,771

34. Credit risk (continued)

Quality of Assets (continued)

	31 December 2019				
	Cash, balances with central banks and due from banks	Loans and advances to customers	Financial assets at amortised cost	Guarantees, letters of credit and unused credit facilities	Total
	€'000	€'000	€'000	€'000	€'000
Stage 1					
1 - 3 - investment grade	973,437	209,554	410,373	103,257	1,696,621
4 - 5 - standard monitoring	744	530,891	97,283	859,941	1,488,859
6 - special monitoring	19,753	327,780	45,424	75,157	468,000
7 - watch	-	-	-	-	-
8 - 10 - classified	-	-	-	4,023	4,023
	993,934	1,068,225	553,080	1,042,378	3,657,617
Stage 2					
1 - 3 - investment grade	31,757	-	-	-	31,757
4 - 5 - standard monitoring	-	4,834	-	27,521	32,355
6 - special monitoring	-	67,053	-	19,980	87,033
7 - watch	-	-	-	5,223	5,223
8 - 10 - classified	-	-	-	-	-
	31,757	71,887	-	52,724	156,368
Stage 3					
1 - 3 - investment grade	-	-	-	-	-
4 - 5 - standard monitoring	-	-	-	-	-
6 - special monitoring	-	-	-	-	-
7 - watch	-	4,629	-	500	5,129
8 - 10 - classified	-	22,479	-	157	22,636
	-	27,108	-	657	27,765
Net	1,025,691	1,167,22	553,080	1,095,759	3,841,750

34. Credit risk (continued)

Quality of Assets (continued)

Derivative balances split by external and internal ratings for 2020 and 2019:

	Derivative Assets		Financial assets at fair value through profit or loss	
	2020	**2019**	**2020**	**2019**
	€'000	**€'000**	**€'000**	**€'000**
External ratings				
AAA to AA-	31	88	151,173	214,268
A+ to A-	190	1,965	10,134	-
BBB+ to B-	1,811	76	7,820	5,606
Below B	-	-	-	8,261
Unrated	1,172	1,337	5,474	-
	3,204	3,466	174,601	228,135
Internal ratings				
1 - 3 - investment grade	267	2,052	161,307	214,268
4 - 5 - standard monitoring	1,464	-	5,474	5,606
6 - special monitoring	1,473	1,414	-	-
7 - watch	-	-	-	-
8 - 10 - classified	-	-	7,820	8,261
Unrated	-	-	-	-
	3,204	3,466	174,601	228,135

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Notes to the Financial Statements for Year ended 31 December 2020

34. Credit risk (continued)

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. The Bank also uses a number of controls and processes to mitigate undue concentrations of exposure including portfolio and counterparty limits, approval and review controls, and stress testing.

Industrial exposure to financial assets and credit related contingent liabilities and commitments as at 31 December 2020 and 31 December 2019 (excluding derivatives):

	31 December 2020				
	Cash, balances with central banks and due from banks	**Loans and advances to customers**	**Financial assets at amortised cost**	**Guarantees, letters of credit and unused credit facilities**	**Total**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**
Stage 1					
Central and local government	-	24,479	163,030	-	187,509
Financial institutions	745,848	53,666	240,463	85,012	1,124,989
Individuals	-	64,203	-	-	64,203
Industrial and commercial	-	661,069	8,025	588,488	1,257,582
	745,84	803,417	411,518	673,500	2,634,283
Stage 2					
Central and local government	-	-	-	-	
Financial institutions	-	-	-	-	
Individuals	-	4,026	-	-	4,026
Industrial and commercial	-	- 23,052	-	59,529	82,581
	-	27,078	-	59,529	86,607
Stage 3					
Central and local government	-	-	-	-	-
Financial institutions	-	-	-	-	-
Individuals	-	154	-	-	154
Industrial and commercial	-	59,624	-	4,103	63,727
	-	59,778	-	4,103	63,881
	745,848	890,273	411,518	737,132	2,784,771

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Notes to the Financial Statements for Year ended 31 December 2020

34. Credit risk (continued)

Concentration of risk (continued)

	31 December 2019				
	Cash, balances with central banks and due from banks	Loans and advances to customers	Financial assets at amortised cost	Guarantees, letters of credit and unused credit facilities	Total
	€'000	€'000	€'000	€'000	€'000
Stage 1					
Central and local government	-	26,635	182,592	-	209,227
Financial institutions	993,934	87,277	334,443	122,828	1,538,482
Individuals	-	76,408	-	26	76,434
Industrial and commercial	-	877,905	36,045	919,524	1,833,474
	993,934	1,068,225	553,080	1,042,378	3,657,617
Stage 2					
Central and local government	-	-	-	-	-
Financial institutions	31,757	-	-	-	31,757
Individuals	-	4,835	-	-	4,835
Industrial and commercial	-	67,052	-	52,724	119,776
	31,757	71,887		52,724	156,368
Stage 3					
Central and local government	-	-	-	-	-
Financial institutions	-	-	-	-	-
Individuals	-	-	-	-	-
Industrial and commercial	-	27,108	-	657	27,765
	-	27,108	-	657	27,765
	1,025,691	1,167,220	553,080	1,095,759	3,841,750

34. Credit risk (continued)

Concentration of risk (continued)

Geographical exposure to financial assets and credit related contingent liabilities and commitments as at 31 December 2020 and 31 December 2019 (excluding derivatives):

	31 December 2020				
	Cash, balances with central banks and due from banks	Loans and advances to customers	Financial assets at amortised cost	Guarantees, letters of credit and unused credit facilities	Total
	€'000	€'000	€'000	€'000	€'000
Stage 1					
UK	157,104	371,694	3,015	75,868	607,681
Europe	524,837	18,909	84,718	462,578	1,091,042
Arab Countries	15,320	412,750	273,172	80,750	781,992
North America	48,306	64	8,025	53,517	109,912
Asia	222	-	-	787	1,009
Other	59	-	42,588	-	42,647
	745,848	803,417	411,518	673,500	2,634,283
Stage 2					
UK	-	5,253	-	-	5,253
Europe	-	7,311	-	51,403	58,714
Arab Countries	-	14,514	-	-	14,514
North America	-	-	-	8,126	8,126
Asia	-	-	-	-	-
Other	-	-	-	-	-
		27,078	-	59,529	86,607
Stage 3					
UK	-	-	-	-	-
Europe	-	-	-	4,103	4,103
Arab Countries	-	59,778	-	-	59,778
North America	-	-	-	-	-
Asia	-	-	-	-	-
Other	-	-	-	-	-
	--	59,778	-	4,103	63,881
	745,84	890,273	411,518	737,132	2,784,771

34. Credit risk (continued)

Concentration of risk (continued)

	31 December 2019				
	Cash, balances with central banks and due from banks	Loans and advances to customers	Financial assets at amortised cost	Guarantees, letters of credit and unused credit facilities	Total
	€'000	€'000	€'000	€'000	€'000
Stage 1					
UK	168,721	399,330	38,434	45,562	652,047
Europe	715,155	85,330	148,594	784,516	1,733,595
Arab Countries	15,639	583,491	319,542	143,432	1,062,104
North America	94,383	74	-	68,868	163,325
Asia	-	-	-	-	-
Other	36	-	46,510	-	46,546
	993,934	1,068,225	553,080	1,042,378	3,657,617
Stage 2					
UK	-	4,834	-	-	4,834
Europe	-	7,330		38,476	45,806
Arab Countries	-	59,723	-	-	59,723
North America	31,747	-	-	14,248	45,995
Asia	10	-	-	-	10
Other	-	-	-	-	-
	31,757	71,887		52,724	156,368
Stage 3					
UK	-	-	-	-	-
Europe	-	-	-	657	657
Arab Countries	-	27,108	-	-	27,108
North America	-	-	-	-	-
Asia	-	-	-	-	-
	-	27,108	-	657	27,765
	1,025,691	1,167,220	553,080	1,095,759	3,841,750

34. Credit risk (continued)

Concentration of risk (continued)

Industrial and geographical exposure to derivative assets and financial assets at amortised cost balances as at 31 December 2020 and 31 December 2019 is presented below:

	Derivative Assets		Financial assets at fair value through profit or loss	
	2020	**2019**	**2020**	**2019**
	€'000	**€'000**	**€'000**	**€'000**
Industrial exposure				
Central and local government	-	-	10,134	-
Financial institutions	2,090	2,133	151,172	214,268
Individuals	-	-	-	-
Industrial and commercial	1,114	1,333	13,295	13,867
Others	-	-	-	-
	3,204	3,466	174,601	228,135
Geographical exposure				
UK	142	147	16,445	17,457
Europe	1,589	1,905	116,958	159,225
Arab Countries	1,473	1,414	19,026	28,013
North America	-	-	-	-
Asia	-	-	16,698	17,834
Others	-	-	5,474	5,606
	3,204	3,466	174,601	228,135

34. Credit risk (continued)

Credit derivatives and collateral

The Bank did not hold any credit derivatives during the year (2019: €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 statement of financial position, net of any allowances for losses, represents the Bank’s maximum exposure to credit risk without taking account of any collateral obtained.

The tables below show the maximum exposure to credit risk by class of financial asset. They also show the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

34. Credit risk (continued)

Credit derivatives and collateral (continued)

2020 €'000	Outstanding balance	Fair value: Cash Margin	Fair value: Shares	Fair value: Bank guarantees	Fair value: Real Estate	Fair value: Other	Fair value: Total Collaterals	Net Outstanding balance	ECL
Loans and advances to customers:	938,593	5,335	20,419	4,553	286,532	174,249	491,088	890,273	48,320
Guarantees, letters of credit and other commitments	738,527	14,637	-	3,932	-	9,281	27,850	737,150	1,377
Total	1,677,120	19,972	20,419	8,485	286,532	183,530	518,938	1,627,423	49,697

2019 €'000	Oustanding balance	Fair value: Cash Margin	Fair value: Shares	Fair value: Bank guarantees	Fair value: Real Estate	Fair value: Other	Fair value: Total Collaterals	Net Outstanding balance	ECL
Loans and advances to customers:	1,217,813	23,716	24,668	19,832	458,510	68,361	595,087	1,167,220	50,593
Guarantees, letters of credit and other commitments	1,097,103	27,068	-	4,469	-	43,607	75,144	1,095,759	1,344
Total	2,314,916	50,784	24,668	24,301	458,510	111,968	670,231	2,262,979	51,937

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.

35. 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 the Bank borrows / lends 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.

35. Market risk (continued)

(a) Interest Rate Risk Management (continued)

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 Risk Control team which reports to the Chief Risk Officer.

The following tables provide a summary of the interest rate re-pricing profile of the 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.

35. Market risk (continued)

(a) Interest Rate Risk Management (continued)

	31 December 2020							
	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	-	-	-	-	-	-	135,518	135,518
Due from banks	29,484	3,675	33	-	-	-	577,138	610,330
Fair value through profit or loss	5,474	23,087	-	34,541	94,330	17,169	-	174,601
Loans and advances to customers	269,330	289,469	244,406	3,687	46,023	23,340	14,018	890,273
Financial investments at amortised cost	27,716	37,550	45,052	61,096	169,238	70,866	-	411,518
Derivatives	1,171	453	1,575	5	-	-	-	3,204
Other assets	-	-	-	-	-	-	129,992	129,992
Total assets	333,175	354,234	291,066	99,329	309,591	111,375	856,666	2,355,436
Liabilities and equity								
Deposits by banks	253,274	138,901	57,227	-	-	-	385,630	835,032
Customer accounts	239,407	182,990	213,253	170,302	-	-	283,510	1,089,462
Derivatives	9,747	13,616	3,874	366	-	-	-	27,603
Other liabilities	-	-	-	-	-	-	25,827	25,827
Subordinated liabilities	-	102,191	-	-	-	-	-	102,191
Shareholders' equity	-	-	-	-	-	-	275,321	275,321
Total liabilities and equity	502,428	437,698	274,354	170,668	-	-	970,288	2,355,436
Interest rate sensitivity gap	(169,253)	(83,464)	(16,711)	(71,339)	309,591	111,375	(113,622)	

35. Market risk (continued)

(a) Interest Rate Risk Management (continued)

	31 December 2019							
	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	633,500	-	-	-	-	-	221,111	854,611
Due from banks	12,012	427	679	-	-	-	157,962	171,080
Fair value through profit or loss	10,607	70,202	-	-	98,315	49,011	-	228,135
Loans and advances to customers	275,785	532,262	268,517	11,893	45,133	33,630	-	1,167,220
Financial investments at amortised cost	22,473	103,277	35,736	13,054	258,250	120,290	-	553,080
Derivatives	2,010	1,355	-	101	-	-	-	3,466
Other assets	-	-	-	-	-	-	75,155	75,155
Total assets	956,387	707,523	304,932	25,048	401,698	202,931	454,228	3,052,747
Liabilities and equity								
Deposits by banks	333,531	139,301	21,820	-	-	-	255,634	750,286
Customer accounts	433,513	498,617	355,494	191,515	17,548	-	349,834	1,846,521
Derivatives	9,979	7,283	1,241	40	-	-	-	18,543
Other liabilities	-	-	-	-	-	-	42,879	42,879
Subordinated liabilities	-	111,330	-	-	-	-	-	111,330
Shareholders' equity	-	-	-	-	-	-	283,188	283,188
Total liabilities and equity	777,023	756,531	378,555	191,555	17,548	-	931,535	3,052,747
Interest rate sensitivity gap	179,364	(49,007)	(73,623)	(166,507)	384,150	202,931	(477,308)	

35. 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 Head of Finance. The system of controls over foreign exchange risk is subject to oversight by the 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.

35. 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	2020 CCY '000	2020 €'000	2019 CCY '000	2019 €'000
UAE Dirham	533	119	682	165
Australian Dollar	15	9	23	14
Bahraini Dinar	2	5	2	5
Canadian Dollar	(16)	(10)	(33)	(23)
Swiss Franc	(33)	(30)	(5)	(4)
Danish Kroner	-	-	3	-
Algerian Dinars	1,159	7	233	2
Egyptian Pounds	(17)	(1)	2	-
Euro	4,428	4,428	6,697	6,697
Sterling	(4)	(4)	13	15
Israeli Shekel	69	18	112	29
Indian Rupee	-	-	-	-
Jordanian Dinar	85	97	(55)	(69)
Japanese Yen	195	2	2,419	20
Kuwaiti Dinar	1	3	-	-
Moroccan Dirham	4	-	3	-
Norwegian Kroner	-	-	24	2
New Zealand Dollars	-	-	-	-
Omani Rial	1	2	20	47
Qatari Riyals	143	32	(45)	(11)
Saudi Riyals	(180)	(39)	20	5
Swedish Kroner	-	-	(94)	(9)
Tunisian Dinar	22	7	21	7
Singapore Dollar	-	-	-	-
US Dollar	466	381	(227)	(202)
Yemen Riyals	15	-	15	-
Total utilisation of limit (excluding EUR balance)	-	598	-	(4)

35. 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.

	2020 Impact on Profit/(Loss) €'000	**2019 Impact on Profit/(Loss) €'000**
Interest rate sensitivity		
100bps increase in interest rate	672	996
100bps decrease in interest rate	(672)	(945)

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:

	2020 €'000	**2019 €'000**
EUR appreciates 10%	(54)	(1,627)
EUR appreciates 20%	(100)	(3,255)
EUR depreciates 10%	54	1,627
EUR depreciates 20%	100	3,255

35. Market risk (continued)

IBOR reform

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Bank has established a project to manage the transition for any of its contracts that could be affected. The Head of Treasury is the Senior Manager responsible for the delivery of IBOR Transitions and the project includes senior representatives from functions across the Bank including the client facing teams, Legal, Finance, Operations, Credit and Technology. The project provides monthly progress updates to the Executive Committee. During 2020, the Bank has put in place detailed plans, processes and procedures to support the transition during 2021 of all legacy GBP LIBOR contracts and is in a place to offer clients loans that do not reference GBP LIBOR from Q1 2021 in line with the FCA's milestones. Following the progress made during 2020, the Bank is confident that it has the operational capability to process the volume of transitions to alternative reference rates that will be necessary during 2021 for those interest rate benchmarks such as £ LIBOR that will cease to be available and so will be replaced by SONIA. EAB has also noted the decision led by the Alternative Reference Rates Committee to extend the daily publication of USD LIBOR until the end of June 2023 noting new milestones to cease writing new USD LIBOR referencing business from the 1st January 2022. For other benchmark interest rates such as EURIBOR that have been reformed and can therefore continue, financial instruments referencing those rates will not need to transition.

IBOR reform exposes the Bank to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform;
- Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses;
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable;
- Operational risk arising from changes to the Bank's IT systems and processes; and
- Accounting risk if the Bank's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to alternative reference rates.

36. 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 statement of financial position) develops in a way that causes difficulty attracting adequate funding on reasonable terms; and/or

The risk that the structure of the statement of financial position 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

36. 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 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 behavioural 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.

2020

	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	-						135,518	135,518
Due from banks	29,484	3,675	33	-	-	-	577,138	610,330
Fair value through profit or loss	-	-	4,091	34,541	105,505	30,464	-	174,601
Loans and advances to customers	116,910	74,034	53,902	17,785	310,141	303,483	14,018	890,273
Financial investments at amortised cost	11,189	-	45,052	61,096	223,315	70,866		411,518
Derivatives	290	131	263	5	37	2,478	-	3,204
Other assets	863	125	155	358	2,849	2,943	122,699	129,992
Total assets	158,736	77,965	103,496	113,785	641,847	410,234	849,373	2,355,436
Liabilities and equity								
Deposits by banks	151,083	89,850	208,470	-	-	-	385,629	835,032
Customer accounts	239,408	182,990	213,254	170,300	-	-	283,510	1,089,462
Derivatives	415	3,034	5,133	-	571	18,450	-	27,603
Other liabilities	677	630	1,601	297	200	138	22,284	25,827
Subordinated liabilities	-	-	-	-	-	-	102,191	102,191
Shareholders' equity	-	-	-	-	-	-	275,321	275,321
Total liabilities and equity	391,583	276,504	428,458	170,597	771	18,588	1,068,935	2,355,436

36. Liquidity risk (continued)

2019

	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	633,500	-	-	-	-	-	221,111	854,611
Due from banks	12,012	427	679	-	-	-	157,962	171,080
Fair value through profit or loss	5,001	41,200	-	-	119,056	62,878	-	228,135
Loans and advances to customers	48,733	174,265	28,415	59,327	242,607	613,873	-	1,167,220
Financial investments at amortised cost	5,000	27,754	68,711	19,062	312,262	120,291	-	553,080
Derivatives	124	316	100	327	731	1,868	-	3,466
Other assets	28	680	409	98	3,775	6,564	63,601	75,155
Total assets	704,398	244,642	98,314	78,814	678,431	805,474	442,674	3,052,747
Liabilities and equity								
Deposits by banks	222,202	85,864	186,587	-	-	-	255,633	750,286
Customer accounts	433,513	498,617	355,494	191,515	17,548	-	349,834	1,846,521
Derivatives	5,046	2,843	77	354	4,281	5,942	-	18,543
Other liabilities	2,035	3,152	4,331	1,134	302	448	31,477	42,879
Subordinated liabilities	-	-	-	-	-	-	111,330	111,330
Shareholders' equity	-	-	-	-	-	-	283,188	283,188
Total liabilities and equity	662,796	590,476	546,489	193,003	22,131	6,390	1,031,462	3,052,747

36. Liquidity risk (continued)

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 €'000	1 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
2020								
Deposits by banks	151,089	90,056	208,991	-	-	-	385,629	835,765
Customer deposits	239,471	183,155	213,872	170,904	-	-	283,510	1,090,912
Subordinated liabilities	-	-	-	-	-	-	102,193	102,193
Total non-derivative financial liabilities	390,560	273,211	422,863	170,904	-	-	771,332	2,028,870
2019								
Deposits by banks	222,223	86,792	187,989	-	-	-	255,633	752,637
Customer deposits	433,844	499,760	358,516	194,422	17,630	-	349,834	1,854,006
Subordinated liabilities	-	-	-	-	-	-	111,336	111,336
Total non-derivative financial liabilities	656,067	586,552	546,505	194,422	17,630	-	716,803	2,717,979

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

	Within 3 months €'000	3 to 12 months €'000	1 to 3 years €'000	After 3 years €'000
2020				
Letters of credit and acceptances	59,197	14,986	12,026	-
Guarantees given to third parties	274,580	194,316	91,089	29,511
Un-drawn commitments	62,822	-	-	-

	Within 3 months €'000	3 to 12 months €'000	1 to 3 years €'000	After 3 years €'000
2019				
Letters of credit and acceptances	21,844	39,094	10,456	3,503
Guarantees given to third parties	310,907	225,313	186,477	245,813
Un-drawn commitments	4,823	11,857	37,016	-

36. 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
2020				
Interest rate swaps – net outflow	2,478	4,489	7,736	1,351
2019				
Interest rate swaps – net outflow	609	1,332	5,823	143

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
2020				
Outflow	475,157	10,425	-	-
Inflow	467,231	10,422	-	-
2019				
Outflow	478,843	15,015	-	-
Inflow	486,030	15,091	-	-

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 €28.6m (2019: €21.6m).

The Bank has pledged €122m (2019: €67m) worth of investment securities and cash as collateral against its clearing operations and for secured financing transactions. This includes €33m to secure liabilities under repurchase agreements.

37. 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 overall operational resilience 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.

38. 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 €275m (2019: €283m) and perpetual subordinated liabilities of €102m (2019: €111m). 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. The ICAAP is an assessment of the Bank's capital position, outlining both regulatory and internal capital resources and requirements with EAB's business model, strategy, risk to capital, and the implications of stress testing to capital.