

Europe Arab Bank plc - Pillar III Disclosure

31 December 2010

1. Overview

1.1 Background

The Capital Requirements Directive (CRD) came into effect on 1 January 2007, and is the framework for implementing Basel II in the European Union. Basel II is an international initiative aimed at implementing a more risk sensitive framework for the calculation of regulatory capital.

The CRD, implemented in the UK by way of rules introduced by the Financial Services Authority ("FSA"), consists of three 'pillars':

- Pillar 1 of the new standards sets out the minimum capital requirements entities are required to meet for credit, market and operational risk;
- For Pillar 2, firms and supervisors have to take a view on whether the firm should hold additional capital against risks not covered in Pillar 1 and to take action accordingly within the Internal Capital Adequacy Assessment Process (ICAAP); and
- Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2) with the aim of improving market discipline by requiring firms to publish certain details of their risks, capital and risk management.

In the United Kingdom, the FSA has implemented Pillar 3 by duplicating the CRD articles and annexes to create Chapter 11 – Disclosure (Pillar 3) of the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

1.2 Scope

Europe Arab Bank plc ('EAB'), whose registered office is 13-15 Moorgate, London EC2R 6AD, is registered in England and Wales, number 5575857, and is authorised and regulated by the UK Financial Services Authority. EAB has overseas branches in France, Germany, Italy, Austria and Spain.

EAB is a wholly-owned subsidiary of Arab Bank plc, an international Bank established 81 years ago, with a global network of more than 500 branches and offices in 30 countries and five continents.

1.3 Disclosures and Policy

In accordance with the requirements of Chapter 11 of BIPRU, the disclosures contained in this document cover both the qualitative (e.g. processes and procedures) and quantitative (e.g. actual numbers) requirements. In addition, the disclosures should be read in conjunction with EAB's most recent Annual Report.

The disclosures are required to be made on at least an annual basis and, if appropriate, some disclosures will be made more frequently (see Section 10). EAB has an Accounting Reference Date of 31 December, and, such disclosures are made as soon as practical after publication of the Annual Report and Accounts.

The disclosures are prepared by management, and reviewed and approved by the Board of Directors (the Board), prior to publication on the EAB website (www.eabplc.com).

2. Risk Management Objectives and Policies

EAB follows an 'Enterprise Risk Management' ("ERM") approach.

2.1 Overview

The Board first approved a Bank-wide Risk Management Framework in 2009. This Framework was subsequently revised in July 2010.

The Risk Management Framework, as set out in the Framework document, sets out the high level arrangements for risk management, control and assurance. It is designed to provide a structured approach for identifying, managing, measuring, assessing, monitoring, controlling and reporting financial and non-financial risk within the Bank - on behalf of customers, depositors, policyholders, employees, Arab Bank Group and the Bank's regulators.

Effective and efficient risk governance and oversight provide management with independent assurance that the Bank's business activities will not be adversely impacted by risks. This in turn reduces the uncertainty of achieving the Bank's strategic objectives.

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

2.2 Risk Principles

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

Principle 1: Risk management accountability rests with each department

Departments are responsible for the continuous and active management of their own risks to ensure that risk and return are balanced.

Principle 2: Independent and effective risk control and assurance

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

Risk assurance as provided by Internal Audit ensures that risk management and control are effective.

Principle 3: Risk disclosure

The risk control process is underpinned by comprehensive, proportionate, transparent and objective disclosure of risk exposures to stakeholders.

Principle 4: Capital, liquidity, earnings and reputation protection

Capital, liquidity and earnings are protected by the effective controlling of the risk exposures across all material risk types and businesses. EAB's reputation is protected through the proactive management and control of risks.

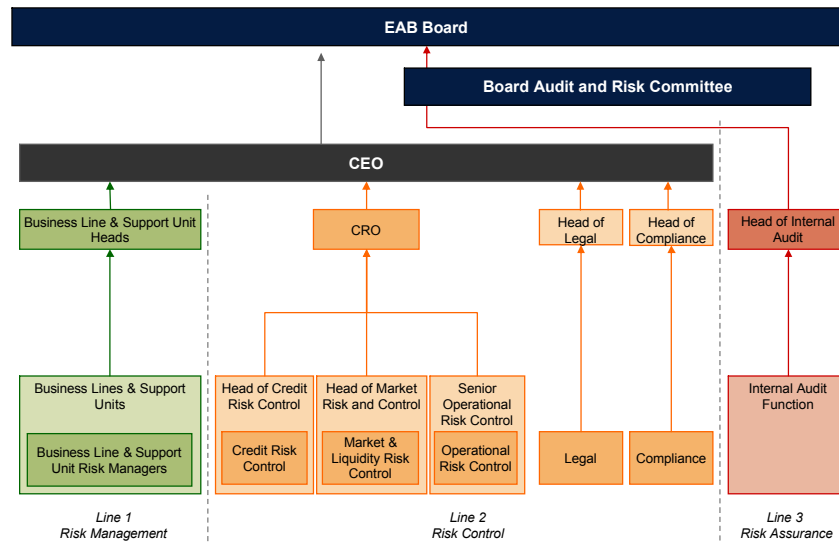
Principle 5: Ethics, culture and embedding

A strong ethical and risk culture is maintained so that risk awareness is embedded into all EAB activities.

2.3 Risk Governance

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

- Line 1 has the responsibility for risk management - comprising of areas where risk taking activities occur and the functions that enable/support these activities. Line 1 in EAB includes the Business Units and support functions such as Finance, Credit and Operations.
- Line 2 is responsible for risk control - providing independent oversight, control and challenge of risk and compliance issues across EAB. As such, Risk, Legal and Compliance are located within Line 2. Line 2 areas are tasked with mandates of Control, Co-ordination and Challenge.
- Line 3 is responsible for risk assurance - Internal Audit acts as the risk assurance function and provides confirmation that both the respective Line 1 risk management and Line 2 risk control activities are operating effectively and in accordance with the stipulated risk governance arrangements.



The Board has overall accountability for risk governance and sets the tone, philosophy, high level principles and expectations. The CEO is charged with the task of developing an effective risk framework, and has delegated the day-to-day responsibility for this to the CRO, supported by the individual Risk Controllers.

2.4 Material Risks

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

- Credit
- Liquidity
- Operational
- Market
- Business
- Regulatory
- Capital

These material risks, along with specific risks within the material risks, are identified on the Risk Map. The Risk Map is used as one basis for determining the focus of the Risk Control teams and the level of effort and investment put into the related parts of the control framework. Risk Control works with all line managers to ensure that all material risks are mapped correctly to identify areas requiring attention. The risk map is approved by the Board and identifies the inter-linkages between the main risks so that the potential financial, reputational and regulatory impact can be assessed and reported on consistently.

All the risks above are continually assessed during the year. The process for assessing which risks require capital to be allocated is set out in the Internal Capital Adequacy Assessment Process, which is referred to later this in Disclosure Document.

2.5 Risk Appetite

The Bank's Risk Appetite defines the types and amounts of risk that the Bank is willing to take in pursuit of its business strategy. This also ensures that EAB is compliant with the UK Corporate Governance Code, which states that 'The board is responsible for dictating the nature and extent of the significant risks it is willing to take in achieving its strategic objectives.'

EAB's risk appetite is articulated in Board-approved Risk Appetite Statements:

- The Bank's appetite is for doing business that is primarily aligned to the core 'Bridge to MENA' strategy and vision.
- The Bank takes a conservative approach to credit risk, and will not sacrifice credit quality in order to make short-term gains.
- The Bank closely manages and controls all liquidity and funding risks in order to strongly protect our depositors.
- The Bank maintains healthy capital ratios, with headroom over any regulatory constraints.
- The Bank takes a conservative approach to market risk, and will not take unnecessary risks in order to make short-term gains.
- The Bank has limited appetite for non-financial risks that may arise from doing business, and zero tolerance for material errors, financial crime or compliance breaches.

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

business there are concomitant operational risks, and other material risks, for which are set maximum acceptable levels, or explicit policies of zero tolerance.

Risk Appetite measures are the most important measures which the Board has approved to ensure that the high-level risk objectives in the Risk Appetite Statements are met.

2.6 Risk Management Process

In accordance with the ERM Framework, EAB maintains high standards of internal controls, with clear accountabilities for risk management, which enables effective oversight and management of risks.

EAB assesses the risks faced, and the controls to manage those risks using a variety of quantitative and qualitative techniques. For example, the Bank uses an external credit rating assessment application to derive the internal EAB credit rating for individual corporate non-Bank counterparties. The Bank has also developed a proprietary software application to assess liquidity risk which has been expanded to include the regulatory requirements set out in the BIPRU 12 and uses a combination of stress tests and sensitivities to measure and monitor liquidity risk.

EAB continues to develop various methodologies for stress and scenario testing to analyse the probability of default and expected loss, as well as using limits to monitor the occasional breach or provide advance warning within a certain level of tolerance.

EAB's risk profile is assessed at all levels by producing management information that is relevant, consistent and timely for reporting to the Board, and other relevant committees.

3. Capital Resources

EAB has adopted the standardised approach to credit, market and operational risk for calculation of the Basel II Pillar 1 minimum capital requirement.

Total available capital at 31 December 2010 was:

Tier 1	€'000
Share Capital	499,998
Retained earnings	(193,372)
Available for sale reserve	(306)
Total Tier 1 Capital	306,320
Tier 2	€'000
Subordinated notes	188,137
Foreign exchange reserve	(7,584)
Total Tier 2 Capital	180,553
TOTAL REGULATORY CAPITAL (TIER 1 & 2)	486,873

EAB has no Tier 3 capital.

4. Capital Adequacy and Management

4.1 Capital Management Approach

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

EAB manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. An internal assessment of capital needs is undertaken at least annually and is presented to the Executive Committee and the Board to review and challenge. This is known as the Internal Capital Adequacy Assessment Process (ICAAP) which is reviewed by the FSA. The ICAAP describes how risks are assessed, controlled, monitored, mitigated and reported and helps the management determine what might be required to maintain the Bank's solvency and strategy assuming certain stressed conditions. EAB's assessment during 2010 is that the Bank had more than adequate capital resources to withstand the effects of a severe economic downturn.

The minimum amount of capital required is determined in accordance BIPRU rules, and EAB's opinion is that the Bank complied with the capital requirements set out by the FSA to cover both Pillar 1 and 2 risks.

The overall minimum capital requirement under Pillar 1 at 31 December 2010 was:

Risk Type	Capital Requirement
	at 8% €'000
Credit Risk	217,408
Market Risk	17,176
Operational Risk	10,526
Pillar 1 minimum capital requirement	245,110
Total Capital Available	486,873
Excess over Pillar 1 minimum capital requirement (unstressed)	241,763

4.2 Credit Risk Component

Risk Type	Capital Requirement at 8% €'000
Bank	39,298
Non-Bank	177,162
Other	948
Total Credit Risk Capital Requirement	<u><u>217,408</u></u>

4.3 Pillar Two

In addition to the capital required in respect of Pillar One risks, the Bank uses an internal model to allocate additional capital in respect of other risks not addressed under the Pillar One minimum capital requirements. These include the following:

- Concentration Risk
- Portfolio Risk
- Market Risk

At 31 December 2010 the Bank has allocated €49,135m for these Pillar Two risks.

	Capital Requirement €'000
Pillar 1 minimum capital requirement	245,110
Pillar 2 capital requirement	49,135
Total Capital Requirement	294,245
Total Capital Available	<u>486,873</u>
Excess over Pillar 1 and Pillar 2 Capital Requirement (unstressed)	<u><u>192,628</u></u>

5. Credit Risk

5.1 Credit Risk Approach

Credit risk presents one of the key financial risks to EAB. The Bank will only establish new business with customers whom it believes at the time will continue to be creditworthy over the long term, obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from default. In cases where customers have experienced financial difficulties affecting their ability to repay their obligations to the Bank due to the current economic downturn, EAB has taken appropriate measures by dedicating additional skilled resources to manage the relationship.

EAB has a very clearly defined strategy of building relationships with entities doing reciprocal and bilateral business in the Middle East and North Africa. A target market of customers has been identified and EAB's value proposition is to develop business mainly with these customers directly or through the Arab Bank Group network.

EAB's approach to credit management is set out in a Credit Policy Manual, which covers all direct (loans or overdrafts) or indirect (third party credit risk guaranteed by the borrower) or contingent credit exposures. The Credit Policy Manual includes details on lending authorities, large exposures, portfolio management, transactions with parent and affiliates, country risk exposure, problematic exposures, industry lending, collateral and provisioning.

Credit risk is mitigated by developing and maintaining a strong relationship with the customer, agreeing comprehensive legal documentation that enables the Bank to monitor the customer's performance through financial and other covenants, representations and warranties, and where appropriate collateral by means of security interests in financial assets, guarantees or other means.

In line with EAB's ERM Framework, credit risk is managed as follows:

The Credit Sanctioning and Administration function (Line 1) primarily handles the assessment and review of individual proposals, which are then submitted to the Credit Committee for approval and ongoing review. In addition, the Credit Sanctioning and Administration function is responsible for closely monitoring limits, terms and conditions, adherence to covenant compliance, collateral management and the management of impaired loans and other accounts requiring special attention.

At the same time, the assessment of portfolio industry and country concentration, as well as all other portfolio risk, is undertaken by the Risk Control function (Line 2). Risk Control additionally carries out a number of other independent oversight activities, including stress testing. Risk Control, which is independent from Credit Sanctioning and Administration, reports ultimately to the Board through the Chief Executive Officer, and also provides reports to the Board Audit & Risk Committee.

5.2 Credit Risk Exposures

The credit risk exposures including credit related contingent liabilities and commitments for 31 December 2010 were as follows:

	Total €'000
Central and local government	501,692
Financial institutions	2,758,303
Individual	56,926
Industrial and commercial	3,620,140
	<hr/>
	6,937,061
	<hr/> <hr/>

The geographical distribution of these exposures was as follows:

	Total €'000
UK	1,057,611
Europe	3,942,371
Arab Countries	1,122,109
North America	541,050
Asia	137,957
Other	135,963
	<hr/>
	6,937,061
	<hr/> <hr/>

The table below presents financial assets excluding cash split by external ratings, where available, for 31 December 2010:

	Balances with central Banks and Loans and advances to Banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and Investment securities €'000	Derivatives €'000	Total €'000
Rated entities					
AAA to AA-	1,415,827	96,705	592,286	1,667	2,106,485
A+ to A-	455,110	83,068	45,744	12,432	596,354
BBB+ to B-	-	152,662	45,185	-	197,847
Unrated	1,361	1,382,742	49,504	7,621	1,441,208
	<hr/>				
	1,872,298	1,715,157	732,719	21,720	4,341,894
	<hr/> <hr/>				

The table below analyses the loans and advances to customers using the Bank's internal credit rating system:

	31 December 2010 €'000
1 – 3 - investment grade	311,753
4 – 6 - standard monitoring	1,238,755
7 - special monitoring	121,213
8 – 10 - non performing	43,436
	<hr/>
	1,715,157
	<hr/> <hr/>

EAB's credit ratings are mapped to External Credit Agency ratings (e.g. Moody's and Standard and Poor's) and also take into account other behavioural aspects of the counterparty and historical performance.

As at 31 December 2010 the industry distribution including credit related contingent liabilities was as follows:

	Total €'000
Transport	353,041
Energy	161,802
Financial Intermediation	226,596
Manufacturing	428,362
Construction	808,431
Commodities	350,989
Real Estate and Hotels	661,030
Engineering	466,851
Other	163,038
	<hr/>
	3,620,140
	<hr/> <hr/>

5.3 Counterparty Credit Risk, and Collateral

Treasury is authorised only to execute trades with approved counterparties. A recommended list of desired counterparties, their credit ratings and counterparty limits has been drawn up by the Treasurer, reviewed by Credit Department and forwarded for appropriate credit approval by the Executive Credit Committee and the Board of Directors. In no instance will a trade be booked with an unauthorised counterparty. This approval is updated at least once a year.

Any adverse event affecting the credit standing of any names in the approved counterparty list will be advised immediately in a note to Asset & Liability Committee ('ALCO') and the Executive Credit Committee for appropriate action. Traders will note the adverse notice and act accordingly.

We do not believe that a downgrade in EAB’s own credit rating will have a material impact on the amount of collateral that EAB itself would have to provide, though this is kept under close and constant review.

6. Market Risk

EAB’s activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Bank has some appetite for trading securities and other instruments, mainly in relation to the management of the Bank’s overall liquidity requirements.

Risks are managed individually through the use of limits and restricting product exposures. The management and measurement of market risk continues to evolve using more stress and scenario tests and a greater level of reporting, as well as using a variety of techniques, including sensitivities supported by analytical review.

All market risks are monitored and regularly considered by the Board, Board Audit and Risk Committee, ALCO and the Executive Risk & Compliance Committee.

Sensitivity Analysis

The impact of changes in foreign exchange rates on the Bank’s foreign currency assets and liabilities at the reporting date and throughout the period was not considered material. The Bank calculates the sensitivity of changes to the present value of future cash flows, given certain assumptions about changes in the yield curve or to interest rates.

The following table details the Bank’s sensitivity to interest rate risk:

	31 December 2010
	Impact on Profit/(Loss) €'000
Interest rate sensitivity	
200bps increase in interest rate	(3,269)
200bps decrease in interest rate	1,345
200bps increase in interest rate in steps of 50bps	(3,384)
200bps decrease in interest rate in steps of 50bps	1,345
100bps increase in interest rate	(1,650)
100bps decrease in interest rate	1,080
25bps stepped increase to 100bps over 2 months	(1,708)
25bps stepped decrease to 100bps over 2 months	1,080

7. Liquidity Risk

EAB follows a conservative approach to liquidity risk, using stricter internal ratios than required by the FSA and ensuring a liquidity portfolio is retained for prudential reasons.

EAB has identified the following types of liquidity risk:

- **Mismatch liquidity risk** - the liquidity risk in the EAB's current balance sheet structure due to maturity transformation in cash-flows of individual positions.
- **Market liquidity risk** - the inability to sell assets at or near their fair value.
- **Contingency liquidity risk** - the risk that future events may require a significantly larger amount of cash than EAB projects it will need. In other words, it is the risk of EAB not having sufficient funds to meet sudden and unexpected short-term obligations.
- **Total liquidity risk** - the liquidity risks that have been identified can have an impact on the ability to meet all of its financial obligations when they come due or will only permit these financial obligations to be met at an excessive cost.

EAB manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows (both stressed and unstressed) and matching the maturity profiles of financial assets and liabilities.

An assessment of liquidity needs is undertaken at least annually and is presented to the Executive Committee and the Board to review and challenge. This is known as the Individual Liquidity Adequacy Assessment (ILAA) which is open to review by the FSA. The ILAA describes how risks are assessed, controlled, monitored, mitigated and reported and helps the management determine what might be required to maintain the Bank's liquidity and strategy assuming certain stressed conditions.

The minimum liquid asset buffer and survival time horizon required are determined in accordance with BIPRU rules, and EAB's opinion is that the Bank complied with the liquidity requirements set out by the FSA in BIPRU 12 throughout the period 1 October 2010 (implementation date of BIPRU12 for EAB) to 31 December 2010.

The liquid asset buffer position as at 31 December 2010 was €413million and the daily average liquid asset buffer position since 1 October 2010 was €297million. EAB's assessment during 2010 is that the Bank had more than adequate liquidity resources to withstand the effects of a severe liquidity shock.

8. Operational Risk

EAB actively manages Operational Risk in accordance with rules established by the UK Financial Services Authority and guidelines stipulated by reputable independent Industry bodies such as The British Bankers Association and The Association of Foreign Banks.

The Bank's exposure to operational risk is managed using a comprehensively documented Operational Risk policy, procedures and controls well publicised on EAB's central intranet system accessible to all staff which are also reviewed annually or where necessary to incorporate new developments.

Key elements of Operational Risk controls include strict segregation of duties, clearly defined roles, robust monitoring, consistent loss or near miss data collection, transparent governance, active reporting, prudent mitigation and much more. EAB's objective is to maintain high standards of Operational Risk and has as a result adopted key relevant control tools such as risk registers, incident logs, event loss database, scenario assessments and stress testing principles for its management.

Complementary to the Operational Risk control process are expenditure controls, safeguards over access to confidential data, secure offsite storage arrangements for key magnetic data, storage of vital paper records, comprehensive contingency planning and adequate disaster recovery arrangements which is subject to regular testing.

There were no material financial or non-financial operational risk losses in respect of Operational Risk capital cushion set aside during the reference period. All operational risks or near-misses were clearly documented, lessons learnt and sound controls erected to prevent their potential recurrence.

9. Impairment Provisions

9.1 Policy

The Bank assesses regularly whether there is objective evidence that a financial asset or a portfolio of financial assets not carried at fair value through the profit or loss is impaired.

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

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

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

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

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

9.2 Non-Performing Exposure

When principal or interest on any asset remains unpaid after its due date beyond a trigger limit that is regularly reviewed by the Board, the obligation must be placed on non-accrual and any accrued and unpaid interest must be reversed by debit to the Bank's P&L.

Once an exposure has been placed on non-performing status it can be removed only after all outstanding amounts of principal and interest have been received or where a suitable restructuring/rescheduling agreement has been approved and signed and the obligor is current on all his obligations under the revised agreement.

9.3 Summary of Position

The table below shows past due loans and impairments as at 31 December 2010:

	Balances with central Banks and Loans and advances to Banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and Investment securities €'000	Derivatives €'000	Total €'000
Neither past due nor impaired	1,872,298	1,664,860	732,719	21,720	4,291,597
Past due or impaired	-	204,397	14,944	-	219,341
Gross	1,872,298	1,869,257	747,663	21,720	4,510,938
Less: allowance for impairment	-	(154,100)	(14,944)	-	(169,044)
Net	1,872,298	1,715,157	732,719	21,720	4,341,894

The table below shows past due loans and impairments as at 31 December 2009:

	€'000	€'000	€'000	€'000	€'000
Neither past due nor impaired	1,491,194	1,806,885	996,025	37,389	4,331,493
Past due or impaired	-	162,285	42,580	-	204,865
Gross	1,491,194	1,969,170	1,038,605	37,389	4,536,358
Less: allowance for impairment	-	(56,017)	(17,989)	-	(74,006)
Net	1,491,194	1,913,153	1,020,616	37,389	4,462,352

10. Remuneration

The Bank is preparing to be fully compliant with the new Remuneration Code, as laid down within Policy Statement 10/21. During 2011 we intend to revise our Pillar III Disclosure in order to provide disclosure regarding our remuneration policy and practices and to include other updates.

Addendum to
Europe Arab Bank plc - Pillar III Disclosure

31 December 2010

11. Background

The purpose of this addendum is to ensure compliance with BIPRU11, and to provide disclosure regarding the Bank's remuneration policy and practices.

12. Remuneration

In 2011 the Board approved a revised Remuneration Policy. The key features are as follows:

Policy

- The Bank's Remuneration Policy aligns with its business strategy, objectives, values and long term interests and will be in accordance with the FSA's Remuneration Code, being applied in an appropriate proportionate manner.
- Its Policy promotes sound risk management and there should be an appropriate ratio between fixed and variable remuneration.
- EAB will not pay bonuses in a manner designed to avoid the principles of the Remuneration Code.

Purpose

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

Scope

- The Bank's Remuneration policy and principles will apply across EAB.
- Specific requirements will be applicable for the Bank's "Code Staff" in accordance with the FSA Remuneration Code principles and being applied proportionately.

EAB "Code Staff"

- All Executive Committee Members
- Head of Internal Audit
- Head of Legal

General Principles

- Performance will be assessed using pre-determined measures and which may be both financial and non-financial measures.
- Performance measures can change year on year to reflect evolving business strategy, objectives and long term interests of the firm.
- The Chief Executive Officer will have discretion to review performance levels and recommend a final performance assessment for Code Staff. The Chief Executive Officer would not have authority to recommend his own performance assessment and this will be carried out directly by the Nominations & Remuneration Committee.
- For Code Staff, proposals based on the Chief Executive Officer's recommendations will be submitted to the Nominations & Remuneration Committee for approval.
- The Risk and Compliance functions will have input into the performance assessment of individual Code Staff, to include where these functions have concerns about the

behaviour of the individual(s) in relation to appropriate risk appetite and decisions and actions taken, or the riskiness of the business undertaken. This input will be provided to the CEO and Nominations & Remuneration Committee in advance of any meeting to determine Code Staff variable remuneration awards.

- Where Deferral is required, and variable remuneration is below £500K, 40% of variable remuneration will be deferred for 3 years; with the deferred bonus amount paid 1/3, 1/3, 1/3 for the following 3 years, subject to performance levels and effective risk management being maintained.
- If an individual's variable remuneration exceeds £500K, 60% of bonus will be deferred for 3 years; with the deferred bonus amount paid 1/3, 1/3, 1/3 for the following 3 years, subject to performance levels and effective risk management being maintained.
- At least 50% of any variable remuneration components must be made in shares, share-linked instruments or other equivalent non-cash instruments of the firm. These non-cash instruments will need to be subject to a minimum retention policy.
- Deferred portion of bonuses will be subject to performance adjustment to take account of subsequent crystallised risks and developments of an **adverse** nature.
- Where deferral applies, "Bad Leavers" will generally receive no outstanding deferred payments, although the Nominations and Remuneration Committee will have discretion over the treatment of "Bad Leavers" based on recommendations from the Chief Executive.. The Nominations & Remuneration Committee will also have discretion over the treatment of "Good Leavers" based on recommendations from the Chief Executive.

Determination of Remuneration

- Remuneration levels for all EAB employees are determined by benchmarking them against market data for relevant peer group organisations, with consideration given to factors such as employment market conditions; demand for skills, etc.
- Individual remuneration will be based upon individual value and contribution and in line with the Bank's ability to pay, including not adversely impacting the Bank's Capital Adequacy Ratio.
- The Nominations & Remuneration Committee has full Board delegated authority to:
 - set the remuneration package (including monthly salary, fees, incentives and in-kind benefits) of each Executive Committee member and Non-Executive Director and Independent Non-Executive Director, including where appropriate, bonuses and incentive payments;
 - set and approve the Bank's total annual bonus pool and evaluate and approve bonuses of the CEO and members of the Executive Committee, within the approved bonus pool. The CEO is delegated the authority to allocate bonuses to the remaining Bank staff as per the prevailing internal guidelines and within the approved bonus pool;
 - make appointments to the Executive Committee;
 - make other senior management appointments with a base salary above £150,000 and / or a total guaranteed remuneration package above £200,000.
- Performance-related element of remuneration shall be aligned with the best interests of all stakeholders and generally remuneration will not be based on an individual's sales performance.
- The Nominations & Remuneration Committee will take into account its performance measurement duties set out in its TORs when setting remuneration packages or evaluating bonuses.

Role of Risk Management Functions

- The Line 2 and Line 3 Risk Management functions (e.g. Compliance, Risk Control and Internal Audit) should:
 - input into the structure of the Bank's variable remuneration arrangements and changes to the existing framework for these,

- report to the CEO and Nominations & Remuneration Committee including where there are concerns about compliance with the Bank’s Compliance and Risk policies, providing their views and recommendations on individual employee’s bonus awards (for example in situations of material error, bad behaviour, mis-conduct).
- The Risk Management functions should also report on breaches of the Remuneration Code, changes in the Company’s risk profile, fraud and issues raised by the Bank’s remuneration policies in relation to effective risk management being compromised.

Short-Term (Annual) Awards

- Incentive award arrangements will be totally discretionary and paid on an annual basis.
- Annual bonus levels are to be proportionate to basic pay and for individuals determined in line with market practices and rates, employment market conditions and the Bank’s performance and ability to pay.
- Individual objectives will be set for each Code Staff and the objectives will be relevant to their particular role, also being designed to encourage appropriate behaviours and adherence to the Bank’s Compliance and Risk Management policies.
- Awards will be determined upon individual performance and contribution, considering “what” a person achieves and “how” they achieve it (including their behavioural competency delivery).

Long Term Awards

- The Bank may consider the future implementation of Long Term Incentive Plans (LTIP) as deemed appropriate.
- LTIP arrangements would be developed in accordance with the Bank’s Remuneration Policy and principles with appropriate consideration given to the FSA’s Remuneration Code.

Guaranteed Bonuses

- Only paid in exceptional circumstances for new staff.
- Will not extend past the first year of employment.
- Any “signing on/buy-out” bonus should not exceed the terms offered by the previous employer. In circumstances where a guaranteed bonus for the purpose of a “signing on/buy-out” arrangement is agreed and relates to a sum due to a person under a previous deferral arrangement; the bonus should be no more generous in its terms or amount.
- Any guaranteed bonus sum should be subject to performance adjustment in the event of underperformance or misconduct.

Governance of Remuneration Policy

- The Nominations & Remuneration Committee will ensure that the Bank maintains an adequate remuneration policy which is sufficient to attract and retain qualified individuals and complies with all applicable laws and any codes or rulings or other requirements issued by the FSA or any other applicable regulatory body.
- The Bank will prepare a “Remuneration Policy Statement” to record its self-assessment of compliance with the FSA Code, which should be reviewed annually to take account of any changes in policies, practices or procedures and the changes should be approved by the Nominations & Remuneration Committee.

Aggregate quantitative information on remuneration will be provided in the 31 December 2011 Pillar Three document.