EuropeArabBank

Europe Arab Bank plc - Pillar III Disclosure

31 December 2012

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 and its subsidiaries ('the Group'), 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 in 1930, with a global network of more than 600 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. EAB has an Accounting Reference Date of 31 December, and such disclosures are made as soon as practicable after publication of the Annual Report and Accounts.

The 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 Group-wide Risk Management Framework in 2009. This Framework has been subsequently revised on an annual basis.

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 Group - on behalf of customers, depositors, policyholders, employees, Arab Bank Group and the Group's regulators.

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

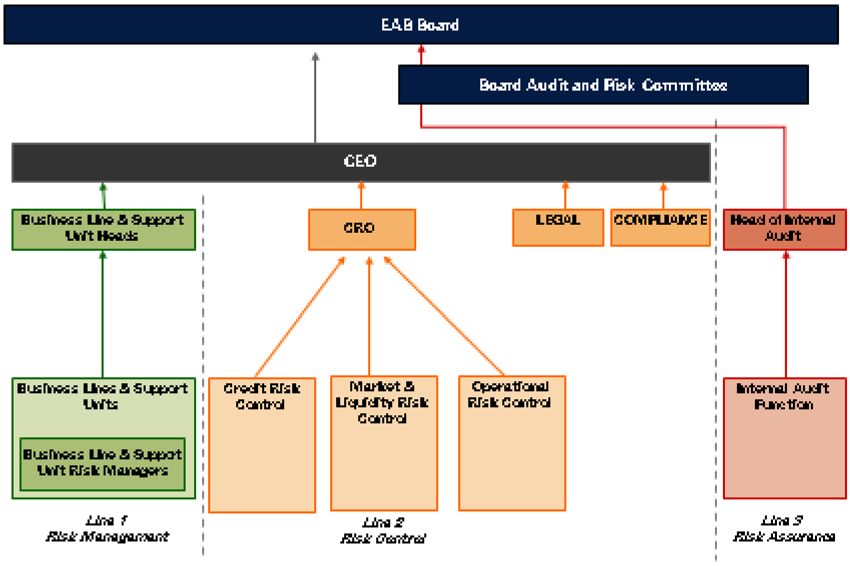
2.3 Risk Governance

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 Strategic Business Units and Support Units.

- 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 Risk is 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. Within EAB, the Board has delegated these to the Chief Executive Officer ("CEO"). The CEO is responsible for developing an effective risk management (including governance) framework and appoints the Chief Risk Officer ("CRO") to develop and manage this.

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 in this disclosure document.

2.5 Risk Appetite

The Group's Risk Appetite defines the types and amounts of risk that the Group 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 Group's appetite is for doing business that is primarily aligned to the core 'Bridge to MENA' strategy and vision.

- The Group takes a conservative approach to credit risk, and will not sacrifice credit quality in order to make short-term gains.

- The Group closely manages and controls all liquidity and funding risks in order to strongly protect our depositors.

- The Group maintains healthy capital ratios, with headroom over any regulatory constraints.

- The Group takes a conservative approach to market risk, and will not take unnecessary risks in order to make short-term gains.

- The Group 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 Group. In the performance of the

Group'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 Group uses an external credit rating assessment application to derive the internal EAB credit rating for individual corporate non-Bank counterparties. The Group 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 2012 was:

Tier 1	€'000
Share Capital	609,998
Retained earnings	(300,661)
Available for sale reserve	141
Foreign exchange reserve	(6,168)
Total Tier 1 Capital	303,310

Tier 2	€'000
Subordinated notes	190,970
Total Tier 2 Capital	190,970
TOTAL REGULATORY CAPITAL (TIER 1 & 2)	494,280

EAB has no Tier 3 capital.
Retained earnings include a deduction for the defined benefit pension asset.

4. Capital Adequacy and Management

4.1 Capital Management Approach

The Group maintains an actively managed capital base to cover risks inherent in the business. The primary objectives of capital management are to ensure that the Group 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 Group's solvency assuming certain stressed conditions. EAB's assessment during 2012 is that the Group 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 with BIPRU rules, and EAB's opinion is that the Group 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 2012 was:

Risk Type	Capital Requirement €'000
Credit Risk	194,429
Market Risk	10,892
Operational Risk	8,941
Pillar 1 minimum capital requirement	214,262
Total Capital Available	494,280
Excess over Pillar 1 minimum capital requirement (unstressed)	280,018

4.2 Pillar Two

In addition to the capital required in respect of Pillar One risks, the Group 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 2012 the Group has allocated €22,750k for these Pillar Two risks.

Risk Type	Capital Requirement €'000
Pillar 1 minimum capital requirement	214,262
Pillar 2 capital requirement	22,750
Total Capital Requirement	237,012
Total Capital Available	494,280
Excess over Pillar 1 and Pillar 2 Capital Requirement (unstressed)	257,268

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

5. Credit Risk

5.1 Credit Risk Approach

Credit risk presents one of the key financial risks to EAB. The Group 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 Group 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 Group 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. The amount and type of collateral depends on the assessment of the credit risk of the counterparty. The types of collateral may include cash, guarantees from banks or specifically approved Export Credit Agencies, real estate or other tangible/ financial assets. Management regularly monitors the market value of collateral and takes this into account in its review of adequacy of the allowance for impairment losses. In the event of an adverse change in the collateral value, additional collateral will be requested in accordance with terms of the individual underlying credit agreement. Acceptable ECA providers include ECGD, Euler Hermes and Coface, however other major providers may be specifically approved by the Group's Executive Credit Committee, subject to that entity maintaining an acceptable credit rating, defined within the Board approved Credit Policy. The ECA providers themselves are reviewed regularly to ensure that their risk remains acceptable.

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

The Credit function (Line 1) primarily handles the assessment and review of individual proposals, which are then submitted to the Executive Credit Committee for approval and on-going review, in line with its delegated authority as approved or amended by the Group's Board from time to time. Any exposures in excess of the Executive Credit Committee delegated limits are escalated to a more senior level in the Group, in line with internal Board approved mandates. In addition, the Credit 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 Line 1 Credit, 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 2012 were as follows:

	Total €'000
Central and local government	1,855,209
Financial institutions	1,584,546
Individual	47,229
Industrial and commercial	3,166,605
	6,653,589

The geographical distribution of these exposures was as follows:

	Total €'000
UK	725,139
Europe	3,930,850
Arab Countries	1,339,325
North America	428,432
Asia	128,636
Other	101,207
	6,653,589

Collateral held as security for loans and advances to customers

Type	Value €'000
Cash	62,821
Financial/ bank guarantee	44,244
Commercial real estate	234,117
Stocks, shares, bonds/ rated notes	134,460
Other approved collateral	358,060
Total	833,702

The table below presents financial assets excluding cash split by external ratings, where available, for 31 December 2012:

	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-	1,624,225	110,209	305,111	3,510	2,043,055
	380,581	58,410	149,422	19	588,432
A+ to A-					
BBB+ to B-	46,167	155,545	71,856	-	273,568
	4,298	1,300,833	11,506	13,363	1,330,000
Unrated					
	2,055,271	1,624,997	537,895	16,892	4,235,055

The table below analyses the loans and advances to customers (net of provisions) using the Group's internal credit rating system:

	31 December 2012 €'000
1 – 3 - Investment Grade	420,875
4 – 5 - Standard Monitoring	995,582
6 - Special Monitoring	140,321
7 – Watch	68,219
8 – 10 – Non-performing	0
	1,624,997

EAB rates all exposures internally, in the following manner:

1. Obligors with an external rating will have their rating taken from Moody's, Standard and Poor's, or Fitch, which is then mapped to EAB's internal rating scale, 1 to 6. In the event that a counterparty is not rated by any of the above three agencies, then methodology 2 below is used.
2. The financials of the counterparty are analysed using an industry standard major rating agency model. The risk is then subject to quantitative and qualitative review, plus an analyst's expert opinion, and the output of this is then mapped using an internal rating grid, to arrive at a grade and default probability band.
3. Project Finance, Real Estate and Structured Trade Finance are allocated ratings in line with internal rating guidance, to reflect the specialised nature of the exposure. This methodology is reviewed from time to time, with any changes subject to Board approval.
4. The accounts categorized as Watch List and Classified (ratings higher than 6) are exposures experiencing potential repayment difficulties. These are individually assessed and monitored more frequently than other categories of business by a dedicated management team.

As at 31 December 2012 the Group's internal industry distribution including credit related contingent liabilities was as follows:

	Total €'000
Transport	222,695
Energy	224,501
Financial Intermediation	679,426
Manufacturing	913,100
Construction	844,329
Commodities	94,531
Real Estate and Hotels	678,834
Mining and quarrying	214,929
Public Administration	106,107
Other	144,660
	4,123,112

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 approved 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.

The Group's objectives and policies on managing the risks that arise in connection with derivatives are set out in the Notes to the Annual Financial Statements.

The gross notional amounts represent the amounts of all outstanding contracts at year-end. It is the sum of the absolute amount of all purchases and sales of derivative instruments. The notional amounts of the derivatives provide a basis for comparison with instruments recognised on the balance sheet.

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

Swaps

These are over-the-counter (OTC) agreements between two parties to exchange periodic payments of interest, or payments for a related index, over a set period based on notional principal amounts. The Group enters into interest rate swaps, exchanging fixed rates for floating rates of interest based on notional amounts.

Interest rate futures

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

Currency forward contracts

Forward foreign exchange contracts are OTC agreements to deliver, or take delivery of, a specified amount of an asset or financial instrument based on a specified rate applied against the underlying asset or financial instrument, at a specified date.
Derivatives are measured at their fair value, which is calculated as the present value of future expected net contracted cash flows at market related rates as of the balance sheet date.

Derivative financial instruments held or issued for trading purposes

Most of the Group's derivatives trading activities relate to deals with customers that are normally offset by transactions with other counterparties. The Group may also take positions with the expectation of profiting from favourable movements in prices, rates or indices. 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 Group 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 is explained in the Notes to the Annual Financial Statements.

The Group's Counterparty Credit Risk due to Derivative positions is as follows:

	31 December 2012		
	Notional	FV Asset	FV Liability
	€'000	€'000	€'000
Interest rate contracts:			
Interest rate swaps	703,858	13,150	25,029
Interest rate futures	30,000	-	583
Exchange rate contracts:			
Currency forward contracts	1,123,304	3,742	2,572
Counterparty Credit Risk exposure due to Derivative positions	1,857,162	16,892	28,184
Collateral paid /received			-15,690
Net Counterparty Credit Risk exposure due to Derivative positions	1,857,162	16,892	12,494

6. Market Risk

EAB's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group has some appetite for trading securities and other instruments, mainly in relation to the management of the Group'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 Group's foreign currency assets and liabilities at the reporting date and throughout the period was not considered material. The Group 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 Group's overall sensitivity to interest rate risk:

Interest rate sensitivity	31 December 2012 Impact on Profit/(Loss) €'000
200bps increase in interest rate	6,643
200bps decrease in interest rate	(341)
200bps increase in interest rate in steps of 50bps	6,681
200bps decrease in interest rate in steps of 50bps	(341)
100bps increase in interest rate	3,343
100bps decrease in interest rate	(1,953)
25bps stepped increase to 100bps over 2 months	3,362
25bps stepped decrease to 100bps over 2 months	(1,953)

Please note that all interest rate risk exposures are transferred to and aggregated in the Treasury department and are included in the above analyses of interest rate sensitivity: these include all Interest Rate Risk in the Banking Book. These risk measures are calculated, monitored and reported on a weekly basis.

7. Liquidity Risk

EAB follows a conservative approach to liquidity risk. A liquidity portfolio is retained for risk management and prudential purposes.

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

- Short term tactical liquidity risk
  The risk that EAB's liquid assets are insufficient to meet its short term commitments.

- Structural liquidity risk
  The risk that EAB's business model (and consequently, its balance sheet) develops in a way that causes difficulty attracting adequate funding on reasonable terms
  and/or
  The risk that the structure of the balance sheet is unduly exposed to disruption in its funding markets.

- Contingency liquidity risk
  The risk that EAB experiences unexpected and/or acute liquidity shocks

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

An assessment of liquidity needs is normally 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 was reviewed during the year by the FSA. This review confirmed our understanding that our Liquid Asset Buffer was sufficient overall to cover the Group's liquidity risks. The ILAA describes how risks are assessed, controlled, monitored, mitigated and reported and helps the management determine what might be required to maintain the Group's liquidity 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 Group complied with the liquidity requirements set out by the FSA in BIPRU 12 throughout the year ended 31 December 2012.

The liquid asset buffer position as at 31 December 2012 was €1,621million and the monthly average liquid asset buffer position since 1 January 2011 was €1,584million. EAB's assessment during 2011 is that the Group had more than adequate liquidity resources to withstand the effects of a severe liquidity shock.

8. Operational Risk

The Group actively manages operational risk in accordance with rules established by the UK Financial Services Authority and guidelines stipulated by other bodies such as the Committee of European Banking Supervisors.

The objective is to maintain high standards of operational risk management and the bank has consequently adopted key tools such as Risk Control Self Assessment, incident logs, event loss database, and stress testing.

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, Operational Risk policies, and systems and controls which set the standards, approach and framework for identifying, assessing, measuring, reporting, controlling and managing operational risks.

The Group adopts the Basel II standardised approach for calculating Operational Risk capital and consequently embarks on rigorous risk identification exercises to establish any Pillar Two requirement for Operational Risk. This is monitored regularly with assessments conducted during the course of each year.

9. Impairment Provisions

9.1 Policy

The Group 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.

The impairment balance movements are set out below:

Group and Company	2012 €'000	2011 €'000
As at 1 January	197,661	169,044
Charged to income statement	53,978	49,833
Amounts written off / reversals	(3,790)	(25,301)
Translation adjustments	5,275	4,085
	253,124	197,661

The policy on impairment measurement and methodology are provided in the Notes to the Annual Financial Statements. Impairment loss allowance includes collective impairment of €32m (2011: €23m).
Included in the impairment allowance are assets with a balance of €104m (2011: €40m) which have been placed under liquidation.

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 Group'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 2012:

Group and Company	Balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Total €'000
Neither past due or impaired	2,055,271	1,646,121	537,895	16,892	4,256,179
Past due and impaired	0	224,000	8,000	0	232,000
Gross	2,055,271	1,870,121	545,895	16,892	4,488,179
Less: allowance for specific impairment	0	(213,124)	(8,000)	0	(221,124)
Less: allowance for collective impairment	0	(32,000)	0	0	(32,000)
Net	2,055,271	1,624,997	537,895	16,892	4,235,055

Provisions by the 3 largest industry exposures: -	€'000
Manufacturing	28,209
Hotels and restaurants	11,762
Real Estate	111,923
Total	151,894

The majority of provisions relate to legacy business, which is no longer in strategy and would not meet current credit policy requirements.

By major geographic area

90% of the provisions emanate from Europe, as the Group's major geographic area of business.

The table below shows comparative past due loans and impairments as at 31 December 2011:

Group and Company	Balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Total €'000
Neither past due or impaired	1,759,717	1,781,910	685,509	24,893	4,252,029
Past due and impaired	0	181,098	8,000	0	189,098
Gross	1,759,717	1,963,008	693,509	24,893	4,441,127
Less: allowance for specific impairment	0	(172,161)	(2,500)	0	(174,661)
Less: allowance for collective impairment	0	(23,000)	0	0	(23,000)
Net	1,759,717	1,767,847	691,009	24,893	4,243,466

10. Remuneration

Europe Arab Bank has an established Nominations & Remuneration Committee ("The Committee") which comprises the Board Chairman, Arab Bank Group CEO and the Chairman of the Board Audit & Risk Committee (Independent Non-Executive Director). The Committee is responsible for ensuring that the Group has an adequate remuneration policy in place which is sufficient to attract and retain qualified individuals. The Committee develops and proposes to the Board for approval:

(1) The Group's Remuneration Policy on terms compliant with the FSA Remuneration Code, and

(2) Such other new, or amendments to the existing, compensation plans as the Committee deems necessary to maintain the competitiveness of the Group in light of its current and anticipated future operations, all such compensation plans to be in compliance with local laws and regulatory requirements.

The Group's Compliance, Risk and Internal Audit functions provide input regarding the structure of the Group's remuneration arrangements, and report to the CEO and Nominations & Remuneration Committee, including where there are concerns about compliance with the Group's Compliance and Risk policies.

The Committee appointed Towers Watson to advise on the determination of its remuneration policy and specifically in determining arrangements to ensure compliance with the FSA Remuneration Code.

Link between Pay and Performance

The variable remuneration of staff is based on the firm's operating profit as this is reflective of the firm's performance.

Quantitative Information

	Aggregate Remuneration
Corporate & Institutional Banking	€3,762,191
Private Banking	€1,424,549
Treasury	€576,183

Code Staff	€4,145,713