EuropeArabBank

Europe Arab Bank plc - Pillar III Disclosure

31 December 2013

Contents

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 Prudential Regulatory Authority ("the PRA"), 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 PRA 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 ("EAB") 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 by the PRA and regulated by the UK Financial Conduct Authority ("the FCA") and the PRA. EAB has overseas branches in France, Germany, Italy, Austria and Spain. EAB is a wholly-owned subsidiary of Arab Bank plc.

EAB calculates and maintains regulatory capital ratio on a solo-consolidation basis. EAB meets the requirements as set out in BIPRU 2.1 for the solo-consolidation of the entities listed in Note 1 of the Annual Report.

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.

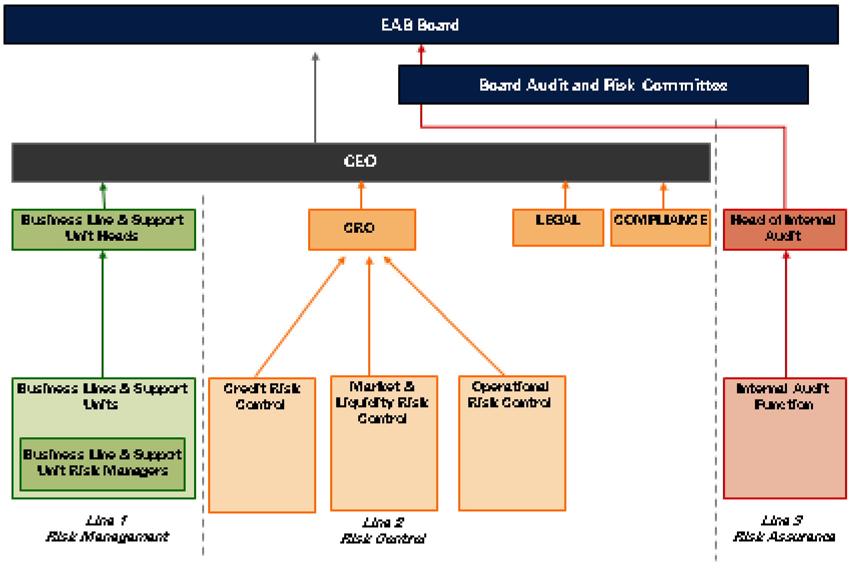
2.3 Risk Governance

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 requirements.
- 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.

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.

EAB continues to develop various methodologies for stress and scenario testing to analyse the probability of default and expected loss, as well as monitoring limits to avoid any breaches and to 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 2013 was:

Tier 1	€'000
Called up share capital	609,998
Retained earnings	(303,140)
Foreign exchange reserve	(6,833)
Total Tier 1 Capital	300,025

Tier 2	€'000
Subordinated notes*	182,877
Total Tier 2 Capital	182,877
TOTAL REGULATORY CAPITAL (TIER 1 & 2)*	482,902

The amounts of total regulatory capital shown above differ from the balances shown in the Consolidated Balance Sheet in light of adjustment in respect of certain reserves, which arise on the application of IFRS and inclusion of current year profits.

Note:

* EAB has issued US Dollar perpetual subordinated floating rate notes on terms which in EAB's opinion qualify for inclusion in Tier 2 Capital under GENRPU 2.2.11(1). EAB has no Tier 3 capital.

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 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 the light of changes in the economic conditions, regulatory requirements and the risk characteristics of its activities.

An internal assessment of capital needs ("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 the management determine what might be required to maintain EAB's solvency assuming certain stressed conditions. In addition, reverse stress testing is also performed. EAB's assessment during 2013 is that it had more than adequate capital resources to withstand the effects of a severe economic downturn.

The minimum amount of regulatory capital required is determined in accordance with the relevant rules and the Individual Capital Guidance ("ICG") received from the PRA. In addition, the Group is expected to maintain a buffer called the Capital Planning Buffer ("CPB") which may only be utilized in extreme circumstances. At 31 December 2013, and throughout the year, EAB's capital in place exceeded the minimum ICG requirement.

The overall minimum capital requirement under Pillar 1 at 31 December 2013 was:

Risk Type	Capital Requirement €'000
Credit Risk Capital Component	167,640
Counterparty Risk Capital Component	3,828
Market Risk	8,575
- Interest Rate PRR	7,083
- Foreign Currency PRR	1,492
Operational Risk	9,661
Pillar 1 minimum capital requirement	189,704
Total Capital Available	482,902
Excess over Pillar 1 minimum capital requirement (unstressed)	293,198

4.2 Pillar Two

In addition to the capital required in respect of Pillar One risks, the Group allocates additional capital in respect of other risks not addressed under the Pillar One minimum capital requirements. These include the following:

- Concentration Risk €10,500k
- Pension Risk €18,000k

At 31 December 2013 the Group has allocated €28,500k for these Pillar Two risks.

Risk Type	Capital Requirement €'000
Pillar 1 minimum capital requirement	189,704
Pillar 2 capital requirement	28,500
Total Capital Requirement	218,204
Total Capital Available	482,902
Excess over Pillar 1 and Pillar 2 Capital Requirement (unstressed)	264,698

5. Credit Risk

5.1 Credit Risk Approach

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from default.

The Executive Credit Committee is responsible for approving credit recommendations and making other credit decisions in accordance with the delegated lending authorities within the Credit Policy Manual. This includes decisions on individual credits, and reviewing and making recommendations above the delegated authorities, to the Board Panel, which consists of the Chairman, Chief Executive Officer ("CEO") and a Non-Executive Director.

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

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

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

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

5.2 Credit Risk Exposures

The credit risk exposures including credit related contingent liabilities and commitments for 31 December 2013 were as follows:

	Total €'000
Central and local government	701,538
Financial institutions	1,764,695
Individual	46,653
Industrial and commercial	2,841,049
	5,353,935

The geographical distribution of these exposures was as follows:

	Total €'000
UK	712,477
Europe	2,632,902
MENA	1,237,973
North America	535,736
Asia	178,662
Other	56,185
	5,353,935

Collateral held as security for loans and advances to customers

Type	Value €'000
Cash	60,008
Financial/ bank guarantee	279,164
Commercial real estate	299,811
Stocks, shares, bonds/ rated notes	92,941
Other approved collateral	115,229
	847,153

The table below presents financial assets excluding cash split by external ratings, where available, for 31 December 2013:

	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-	462,425	42,755	550,873	2,795	1,058,848
A+ to A-	483,118	107,754	281,092	1,206	873,170
BBB+ to B-	36,341	82,326	73,329	2,573	194,569
Unrated	2,137	1,281,361	12,803	3,912	1,300,213
	984,021	1,514,196	918,097	10,486	3,426,800

The table below presents credit risk capital component by standardised credit risk exposure classes for December 2013:

Breakdown of credit risk by standardised credit risk exposure classes	€'000
Central governments or central banks	1,135
Institutions	19,421
Corporates	86,472
Retail	449
Secured by mortgages on residential property	2,014
Secured by mortgages on commercial real estate	13,859
Securitisation positions	12,563
Short term claims on institutions and corporates	28,899
Other items	2,828
	167,640

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

	€'000
1 – 3 - Investment Grade	412,228
4 – 5 - Standard Monitoring	789,228
6 – Other Credits	228,559
7 – Watch	78,328
8 – 10 – Classified	5,853
	1,514,196

EAB rates all exposures internally, in the following manner:

1. Obligors with an external rating will have their rating taken from a major international rating agency with whom the Bank holds a licence 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 2013 the Group's internal industry distribution including credit related contingent liabilities was as follows:

	Total €'000
Transport	142,356
Energy	189,403
Financial Intermediation	486,793
Manufacturing	908,520
Construction	687,614
Commodities	95,042
Real Estate and Hotels	513,528
Mining and quarrying	191,041
Public Administration	98,632
Other	128,402
	3,441,331

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 included in note 1(i) and note 31of 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, 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 Group's exposure to credit or price risks.

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

The 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.

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

The Group's Derivative positions at 31 December 2013 are as follows:

	Notional €'000	FV Asset €'000	FV Liability €'000
Derivatives held for trading			
Interest rate contracts:			
Interest rate swaps	514,011	8,007	12,911
Interest rate futures	125,580	381	269
Exchange rate contracts:			
Currency forward contracts	691,137	1,772	3,495
Net Counterparty Credit Risk exposure due to derivative positions	1,330,728	10,160	16,675
Derivatives used as fair value hedges			
Interest rate swaps	233,297	326	5,653
Total recognised derivative assets and liabilities	1,564,025	10,486	22,328

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

	2013 Impact on Profit/ (Loss) €'000
Interest rate sensitivity	
100bps increase in interest rate	2,266
100bps decrease in interest rate	(565)
25bps stepped increase to 100bps over 2 months	2,282
25bps stepped decrease to 100bps over 2 months	(565)

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 buffer of high quality liquid assets 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 ALCO, Board Audit and Risk Committee and the Board to review and challenge. This is known as the Individual Liquidity Adequacy Assessment (ILAA) and is also available for review by the PRA upon request. 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 buffers required are determined in accordance with BIPRU rules, and EAB's assessment during 2013 is that the Group complied with the liquidity requirements set out by the PRA in BIPRU 12 and had more than adequate liquidity resources to withstand the effects of a severe liquidity shock.

The liquid asset buffer position as at 31 December 2013 was €699million.

8. Operational Risk

The Group actively manages operational risk in accordance with regulation and guidance from the UK FCA and the PRA, as well as 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 and Control Self Assessment, 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 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.

9. Impairment Provisions

9.1 Policy

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

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

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

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

The impairment balance movements are set out below:

	2013 €'000	2012 €'000
As at 1 January	253,124	197,661
Charged to income statement	17,039	53,978
Amounts written off / reversals	(82,685)	0
Recoveries/ releases during the year	(1,639)	(3,790)
Translation adjustments	(1,276)	5,275
	184,563	253,124

The policy on impairment measurement and methodology are provided in the Notes to the Annual Financial Statements. Impairment loss allowance includes collective impairment of €30m (2012: €32m).

Included in the impairment allowance are assets with a balance of €23m (2012: €104m) which have been placed under liquidation.

9.2 Past due exposures

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 overdue amount is reported to the appropriate levels of management for further action. If the reasons for delay are determined as being due to financial difficulties faced by the counterparty, exposures to that counterparty are marked as non-performing.

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 counterparty is current on all his obligations under the revised agreement.

The table below shows past due loans and impairments as at 31 December 2013:

	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	984,021	1,525,576	922,097	10,486	3,442,180
Past due and impaired	-	161,183	8,000	-	169,183
Gross	984,021	1,686,759	930,097	10,486	3,611,363
Less: allowance for specific impairment	-	(146,204)	(8,000)	-	(154,204)
Less: allowance for collective impairment	-	(26,359)	(4,000)	-	(30,359)
Net	984,021	1,514,196	918,097	10,486	3,426,800

The majority of provisions relate to legacy business, which are no longer in the firm's strategy and would not meet current credit policy requirements.

The table below shows comparative past due loans and impairments as at 31 December 2012:

	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	-	224,000	8,000	-	232,000
Gross	2,055,271	1,870,121	545,895	16,892	4,488,179
Less: allowance for specific impairment	-	(213,124)	(8,000)	-	(221,124)
Less: allowance for collective impairment	-	(32,000)	-	-	(32,000)
Net	2,055,271	1,624,997	537,895	16,892	4,235,055

Provisions by the 3 largest industry exposures as at 31 December 2013

	€'000
Real Estate	111,508
Manufacturing and trading	24,399
Hotels and restaurants	7,057

By major geographic area

84% of the provisions emanate from Europe, as the Group's major geographic area of business.

10. Remuneration

Europe Arab Bank has an established Nominations & Remuneration Committee ("The Committee") which comprises the Board Chairman/Arab Bank Group CEO, the Chairman of the Board Audit & Risk Committee (Independent Non-Executive Director) and a second 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:

- The Group's Remuneration Policy on terms compliant with the FCA Remuneration Code; and
- 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 have appointed Towers Watson to advise on the determination of its remuneration policy and specifically in determining arrangements to ensure compliance with the FCA 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	€2,956,016
Private Banking	€1,434,607
Treasury	€452,580
Code Staff	€3,896,574