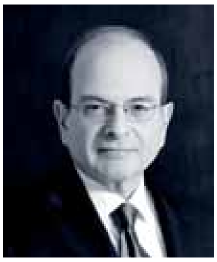
ANNUAL REPORT 2013

PART OF THE ARAB BANK GROUP

EuropeArabBank

ANNUAL REPORT 2013 CONTENTS

DIRECTORS, OFFICERS AND PROFESSIONAL ADVISERS


Mr Nemeh Sabbagh
Chairman


Mr Ziyad Akrouk
Chief Executive Officer


Mr Achim Klueber
Executive Director


Mr David Somers
Independent
Non-Executive Director


Sir Edward Leigh
Independent
Non-Executive Director


Mr Faris Sharaf
Non-Executive Director


Mr Ghassan Tarazi
Non-Executive Director


Mr Samer Tamimi
Non-Executive Director

Directors

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Non-Executive Director

Mr Samer Tamimi
Non-Executive Director

Executive Management

Mr Ziyad Akrouk
Chief Executive Officer

Mr Achim Klueber
Managing Director
Corporate & Institutional Banking

Mrs Andrena Da Silva
Head of Operations

Mr Charles Pickin
Chief Risk Officer

Mr Kevin Holt
Head of Human Resources
and Marketing & Communication

Mr Mohammad Shoaib Memon
Head of Finance

Mr Neil Turnnidge
Head of Treasury

Mr Philip Arida
Head of Private Banking

Mr Ramadan Abulhawa
Head of IT

Mr Samir El-Sukhun
Head of Credit

Company Secretary

Mr Andrew Macdonald

Registered Office

13 - 15 Moorgate
London EC2R 6AD

Auditor

Deloitte LLP
Chartered Accountants
London
United Kingdom

STRATEGIC REPORT

Overview
Europe Arab Bank ("EAB"), inclusive of its subsidiaries ("EAB Group"), has been operating since 2006 and provides as its core businesses Corporate & Institutional Banking ("CIB"), Private Banking and Treasury services to its clients. EAB operates through eight offices in six European countries, with its focus on business transacted between Europe & North America and the Middle East & North Africa ("MENA"). EAB is a wholly-owned subsidiary of Arab Bank plc ("the parent"), through which it has access to an extensive banking network in the MENA region.

Strategy and Objectives
EAB's strategic objectives remain focused on the "Bridge to MENA" proposition. EAB is an integral part of the Arab Bank Group and complements the global Arab Bank Group footprint by extending coverage to and for European & North American clients. EAB is a niche bank, focused on delivering excellence and value to our clients and business partners, and generating sustainable profits for our shareholder.

Business Model
EAB has a simple business model founded on three main business units, offering high service levels and building long-term relationships with clients and other stakeholders. The business is headquartered in London but also provides services to its clients through branches in Cannes, Frankfurt, Madrid, Milan, Paris and Vienna. In addition, a dedicated Private Banking office has been established in London to service private clients.

The key activities of the three main business units are summarised below:

Corporate & Institutional Banking
Corporate & Institutional Banking offers lending, deposits and trade finance products and concentrates on the development of long lasting, strategically-aligned relationships with clients. The CIB Bridge to MENA strategy focuses on serving European & North American companies undertaking business in the MENA region, and MENA investment into Europe & North America. CIB works closely with our parent group and other financial institutions to offer geographic coverage and products either on a conventional or Sharia compliant basis.

Private Banking
Private Banking's key function is to service our high net worth individuals and act as a strategic liquidity provider. The business also makes available other products to clients including real estate financing and brokerage services on non-advisory basis.

Treasury
EAB's Treasury department is responsible for asset and liability, interest rate risk, liquidity and capital management. In addition, Treasury also provides a range of financial products in money markets, capital markets, foreign exchange and derivative markets which are tailored to meet the needs of the private and corporate clients and enable them to manage their risks.

Financial Review
EAB has reported a net profit for 2013 despite a subdued economic environment with slow growth and events in the Eurozone and MENA continuing to impact on sentiment. The realignment of the business over the last few years to the core strategy of complementing the Arab Bank Group's franchise, focus on Bridge to MENA proposition, managing of legacy assets and simplifying the business model have started to deliver results.

STRATEGIC REPORT CONTINUED

Income statement (€m's)	2013	2012
Net interest income	33.8	33.9
Net commission income	17.6	20.7
Other income	2.9	3.9
Adjusted operating income*	54.3	58.5
Operating expenses	(37.2)	(42.6)
Adjusted operating profit	17.1	15.9
Impairment loss expense	(15.4)	(50.2)
Credit related fair value adjustment (loan designated as at fair value through profit or loss)	0.6	(20)
Net profit/(loss) before tax	**2.3**	**(54.3)**

*Difference between 'Adjusted operating income' above and 'Net operating income' in the consolidated income statement relates to the presentation of the credit related fair value adjustment recognised on an asset designated as at fair value through profit or loss.

Net interest income ("NII") for 2013 was higher than 2012 in CIB and Treasury whilst lower in Private Banking resulting in overall NII close to 2012 levels. CIB continued to book new funded business in line with the core strategy at higher margins despite being affected by unexpected prepayments whilst exiting non-strategic loans. Treasury instigated replacement of maturing securities portfolio with highly rated securities issued largely by financial institutions. In addition, Treasury built up a multi-currency liquidity portfolio to meet the liquid asset buffer ("LAB") requirements set by our regulators. The combination of the two has resulted in more efficient management of liquidity requirements and surplus liquidity for EAB. Private Banking, on the other hand, remained affected by the low interest rate environment where margin opportunities on deposits were limited vis a vis the decision to maintain the deposit base to support client relationships and prudent liquidity.

Net commission income was lower than 2012 due to lower clearing volumes, lower guarantees related commission and a large one off fee income recognised on repayment of certain facilities in 2012.

Other income reduced in 2013 largely due to lower mark to market and foreign exchange incomes. 2012 included a large positive mark to market gain due to the reversal of some of the losses booked in the prior years. Furthermore, some of the securities added to the LAB portfolio in 2013 were purchased at a premium resulting in negative mark to market due to reduced time to maturity. However, the overall yield (including interest income) on these securities remained positive. Foreign exchange income was lower largely due to the Euro remaining stronger than anticipated during the year resulting in a loss on a hedge position undertaken for part of the Sterling cost base.

Operating expenses were well controlled with a reduction in employee and other costs as EAB continued to streamline and simplify its operating model. EAB has now centralised a large proportion of its operational support activities in London, which has also resulted in the reduction of overhead costs.

The impairment related charges reduced considerably compared to 2012 as most of the legacy assets considered non - strategic have now either been exited or provisioned for.

The net result before tax is therefore a profit of €2.3m, a significant improvement compared to 2012. EAB is optimistic that the business is now well placed to build on this in the upcoming periods.

STRATEGIC REPORT CONTINUED

Balance Sheet (€m's)	2013	2012
Cash and balances with banks and sister companies	984	2,055
Loans and advances to customers	1,514	1,625
Securities	918	538
Other assets	64	71
Total assets	**3,480**	**4,289**
Deposits by and due to banks and sister companies	999	1,830
Deposits by customers	1,950	1,909
Other liabilities	46	58
Total liabilities less tier 2 capital	2,995	3,797
Tier 2 capital	183	191
Shareholders' equity	302	301
Total capital and liabilities	**3,480**	**4,289**
Customer related contingent liabilities and commitments	**1,927**	**2,419**

Cash and balances with banks and securities principally relate to Treasury's assets and are primarily for liquidity purposes as well as generating return on surplus liquidity. Cash and balances with banks reduced compared to 2012 following reduction in the overnight funds received as well as reallocation of funds into investment securities, including LAB, to manage the liquidity requirements on a more efficient basis. The securities balance at the end of 2013 largely comprises highly rated sovereign and multilateral institutions for LAB purposes and high rated financial institutions.

The reduction in customer loan book was attributable to FX rate movements, lower outstanding discounted bills at the year end and lower outstanding loans. Whilst the loan origination levels were at a moderate level during 2013, large unexpected prepayments and exit of non-strategic loans resulted in net lower outstanding balances. The loan portfolio at the end of 2013 largely comprised of short-term trade related discounting and financing facilities, real estate lending for prime UK properties and project related financing for MENA connected clients.

Deposits by banks and sister companies, as noted above, reduced year on year largely due to lower overnight balances from Arab Bank Group entities. Customer deposits on the other hand increased compared to 2012 despite offsetting FX rate movements. The customer deposit base is well diversified between corporates, sovereign institutions, small and medium enterprises and high net-worth individuals having strong relationships with EAB.

Capital of the Company comprises US$ denominated perpetual subordinated notes (Tier 2 capital) and equity. The reduction in Tier 2 capital is due to foreign exchange movements.

Customer related contingent liabilities largely comprise un-funded assets arising out of our Trade Finance business including letters of credits and guarantees and undrawn commitments.

STRATEGIC REPORT CONTINUED

KPI	DESCRIPTION	2013	2012
Adjusted Cost to Income Ratio	Measures operational efficiency of the business and the returns generated	68.5%	73%
Adjusted Loan to Customer Deposit Ratio	Represents EAB's ability to fund its lending from core deposits generated	71%	73.5%
Capital Adequacy Ratio (Basel II)	Monitors EAB's capital adequacy and compliance with regulatory requirements	20%	20%
Tier 1 Capital Ratio	Monitors quality and strength of EAB's capital	13%	12%
Coverage Ratio	Reflects EAB's specific provisions against non-performing assets (excluding collateral)	97%	100%

Other Key Performance Indicators

EAB uses other Key Performance Indicators ("KPI") to identify and monitor trends in the performance of the strategies employed. These KPIs are reviewed on a regular basis and form an integral part of the decision making process. The KPIs generally reflect a substantial improvement in the performance compared to 2012.

During 2013, EAB absorbed the business of Arabella for IT Services Limited ("Arabella"), a subsidiary, under an Asset Purchase Agreement. Arabella used to provide financial and business continuity IT services and the impact of the acquisition is included in notes to the financial statements. Subsequent to the transfer, Arabella has been placed in voluntary liquidation.

Principal Risks and Uncertainties

EAB's risk appetite is articulated in the Board of Directors' approved Risk Appetite Statements:

- EAB's appetite is for doing business that is primarily aligned to the core 'Bridge to MENA' strategy and vision;
- EAB takes a conservative approach to credit risk, and will not sacrifice credit quality in order to make short-term gains;
- EAB closely manages and controls all liquidity and funding risks in order to strongly protect our depositors;
- EAB maintains healthy capital ratios, with headroom over any regulatory requirements;
- EAB takes a conservative approach to market risk, and will not take unnecessary risks in order to make short-term gains; and
- EAB 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 EAB.

The key risks, as noted in the Risk Map approved by the Board of Directors, are noted opposite including the techniques applied to manage and mitigate those risks.

STRATEGIC REPORT CONTINUED

RISK	RISK MITIGATION AND MANAGEMENT
Credit EAB faces credit and counterparty risk across its business units, particularly in CIB. EAB advances loans and off balance sheet facilities to a range of corporate, SME and individual borrowers. In addition, surplus funds are placed with or invested in securities issued by other financial institutions, sovereign or multilateral institutions. A limited number of derivative contracts are also executed to hedge interest rate and foreign exchange risks through the Treasury business.	EAB has a policy of dealing with counterparties considered creditworthy in its assessment and obtaining sufficient collateral, where appropriate, to mitigate the risk of financial loss from default. EAB normally concentrates its lending efforts in areas in which it has competitive advantage, knowledge of the particular market and good understanding of the commercial and political risks involved within those markets. Credit risk is managed by establishing limits for individual counterparty, country, industry and transactions with related parties. Limit monitoring is undertaken on a regular basis. EAB has also adopted a credit grading system to facilitate monitoring of quality of the overall portfolio and individual exposures, and changes therein over time. Credit exposures are also stressed regularly. EAB's policy is to recognise impairment provisions in a timely manner through a focused approach to problem exposures. Impairment reviews, including recommendations for new impairment provisions or reversal of existing provisions, both specific and collective, are carried out on a regular basis.
Liquidity The risk that EAB does not have sufficient financial resources to meet its obligations as they fall due or EAB's business model develops in a way that causes difficulty in attracting adequate funding on reasonable terms. This also includes the risk that EAB experiences unexpected and/or acute liquidity shocks.	EAB follows a conservative approach to liquidity risk. EAB manages liquidity risk by maintaining adequate reserves, liquidity portfolio, banking facilities and reserve borrowing facilities and by continuously monitoring and reviewing actual and forecast cash flows (both stressed and unstressed). An assessment of liquidity needs, known as Individual Liquidity Adequacy Assessment ("ILAA"), is undertaken at least annually and is presented to various governance committees for review, challenge and approval. The ILAA describes how liquidity risks are assessed, controlled, monitored, mitigated and reported and helps the management determine what might be required to maintain liquidity assuming certain stressed conditions. In addition, reverse stress testing is also performed. The minimum liquid asset buffer is determined in accordance with the relevant rules and the Individual Liquidity Guidance ("ILG") received from the regulator. EAB's assessment during 2013 is that it had more than adequate liquidity resources to withstand the effects of a severe liquidity shock and complied with overall regulatory requirements.

STRATEGIC REPORT CONTINUED

RISK	RISK MITIGATION AND MANAGEMENT
Market EAB is exposed to market movements primarily due to changes in interest rates, foreign currency exchange rates and re-pricing of certain portfolios of financial instruments other than due to interest rate risk. Interest rate risk can pose a threat to EAB's earnings, values of its assets and liabilities and thus its P&L and capital base. Most of EAB's activities primarily fall into one of the three major currencies; EUR, GBP and USD. However, there are limited interests in a number of other foreign currencies.	Market risk is actively managed and monitored through use of various limits. EAB is generally averse to market risk and restricts proprietary market risk positions (other than cash-flow or position hedges) to outright long bond positions, small trading FX positions and limited interest rate positioning on the yield curve. All other product types (for example option products, structured products, etc.) are dealt on a back-to-back, fully hedged basis and only to satisfy customer requests.
Capital This is the risk of having insufficient or inadequate economic or regulatory capital to support EAB's risk-taking activities. The risk may also arise from inadequacies in assessing the overall and future risks to which EAB may be exposed on a stressed basis, leading potentially to a failure to plan, maintain and raise capital as appropriate. Also included therein is the risk of insufficient or inadequate capital to support EAB's pension obligations.	EAB maintains an actively managed capital base to cover risks inherent in the business. The primary objectives of capital management are to ensure that EAB complies with regulatory capital requirements and maintains healthy capital ratios in order to support its business and maximise Shareholders' value. EAB manages its capital structure and makes adjustments to it in light of changes in economic conditions, regulatory requirements and risk characteristics of its activities. An internal assessment of capital needs, ("the ICAAP"), is undertaken at least annually and is presented to the various governance committees for review, challenge and approval. The ICAAP describes how risks are assessed, controlled, monitored, mitigated and reported, and helps management determine what might be required to maintain EAB's solvency assuming certain stressed conditions. In addition, reverse stress testing is also performed. 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 regulator. At 31 December 2013, and throughout the year, EAB's capital exceeded the minimum ICG requirement.

STRATEGIC REPORT CONTINUED

RISK	RISK MITIGATION AND MANAGEMENT
Operational Within EAB, Operational Risk is defined as the risk of loss arising from inadequate or failed internal processes, people or systems, or from external events. These include those risks relating to Information Security, Business Continuity and Fraud.	Operational risk is managed in accordance with guidelines and best practices issued by various regulatory bodies. The objective is to maintain high standards of operational risk management in order to ensure that EAB has a strong framework of internal controls. EAB has consequently adopted key tools such as risk and control self assessments, operational risk event and issue reporting and stress testing, from which the output allows the Board to provide attestation of a robust controls framework. Information Security risks are mitigated via a framework consisting of security policies and procedures in conjunction with technical security controls. A Bank-wide framework exists to mitigate business continuity risks which is tested periodically to provide assurance that the Bank can continue with its critical activities in the event of an incident. In addition controls exist to provide resilience against possible business or system failures. Fraud risk is mitigated via the implementation of a Fraud Risk Policy and associated reporting and response procedures in the event of any fraud events or issues occurring. The Operational Risk Committee provides oversight over operational risk management within EAB.
Business EAB defines Business Risk as being primarily Strategic Risk, which is broken down into an internal component which relates to risks associated with adverse business decisions or poor execution of approved strategy, and external business environment changes which could impact detrimentally on the strategy, or lack of responsiveness to these changes.	EAB, including the Board of Directors, devote significant time and resources to the development and execution of strategic plans, including a formal annual review of strategy. Any material financial, regulatory or business risks are brought to the attention of the Board without delay. The Board and other executive committees monitor an array of information sources, including risk indicators, to ensure strategic decision making is based on carefully considered principles.
Regulatory EAB operates in a highly regulated environment. Regulatory and legislative changes or non-compliance with them have the potential to significantly impact the financial performance and/or reputation of EAB. The continuing regulatory and political focus on the financial services industry further increases the potential of material impact from regulatory risk.	EAB actively monitors regulatory and legal compliance and new developments whilst maintaining a regular dialogue with relevant regulatory authorities. EAB believes its simple business model, strong liquidity and capital position means that it is well placed to adapt to regulatory changes.

STRATEGIC REPORT CONTINUED

Notes 30 to 35 of the financial statements provide further information about these risks, the committees with responsibility for and the policies to manage the key risks including the derivative instruments used. Further details of EAB's regulatory capital ratios required under Basel II Pillar 3 are published on EAB's website. The total regulatory capital reported therein differs slightly from the balances shown in the Consolidated Balance Sheet in light of adjustments in respect of certain reserves.

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

Employee Remuneration Policy

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

The purpose of the Policy is to:

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

The general principles of the Policy include:

- Performance will be assessed using pre-determined measures which may be both financial and non-financial;
- Performance measures can change year on year to reflect evolving business strategy, objectives and long-term interests of the firm; and
- The Risk 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.

Going Concern Basis

The business activities together with the performance and position, the principal risks and uncertainties and factors likely to affect its future development are set out in this Report. In addition, notes to the financial statements include the objectives, policies and processes for managing the capital; financial risk management objectives; details of financial instruments and hedging activities; and the exposure to credit, market, liquidity and other risks.

EAB maintains a capital surplus, and a strong liquidity base which has remained largely unaffected during the recent uncertain economic, political and social environment in its key markets. The customer base is sufficiently diverse to ensure operational revenues and funding levels remain materially unaffected. In addition, EAB benefits from financial and other support of Arab Bank Group, as evidenced through the additional capital injections during 2011 and 2012. As a consequence, the Directors believe that EAB is well placed to manage its business risks successfully.

After making enquiries, the Directors have a reasonable expectation that the Company and the EAB Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Future Outlook

EAB expects to build on its results in the upcoming periods through execution of the clearly defined strategic objectives, with the aim of generating sustainable returns for the shareholder. It is well positioned to meet the new Basel III requirements being implemented in the European Union under the Capital Requirements Directive ("CRD IV") effective January 2014.

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

- Economic conditions, particularly in Europe, could impact the performance in a number of different ways including lower demand for financial products due to lower economic activity, reduced risk appetite or potential asset impairments due to weakening credit quality of clients;
- Continued geopolitical instability in the MENA region affecting key markets and clients; and
- Further significant changes to the regulatory or legislative environment that could have an adverse effect on how the business operates and its financial position.

Approved by the Board and signed on its behalf by:

Andrew Macdonald
Company Secretary
Date: 6 February 2014
13 - 15 Moorgate
London EC2R 6AD

CORPORATE GOVERNANCE

The Board of Directors of EAB ("Board") is responsible for the overall governance of the Company and the Directors have sought to ensure that the standards of good practice set out in the UK Corporate Governance Code, although not directly applicable to EAB, are adhered to as considered appropriate.

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

The primary responsibilities of the Board include:

- Setting the Company's strategy taking into account stakeholder interests;
- Ensuring that the business has an effective system of internal control and management of business risks and is conducted in accordance with the Financial Conduct Authority's ("FCA") and Prudential Regulation Authority's ("PRA") principles for business;
- Monitoring financial information, and reviewing the overall financial condition of the Company and its position as a going concern;
- Reviewing major developments in business lines and support units;
- Reviewing the priorities for allocating capital and operating resources;
- Monitoring of compliance and reputational issues;
- Reviewing the market, credit and liquidity risks and exposures with additional oversight and control over credit risk management; and
- Reviewing the application of stress tests and appropriateness of the Company's stress testing policy.

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

The Board has compiled a list of matters reserved for which the Board's approval is required and has delegated authority and responsibility for day-to-day management of the Company to the Chief Executive Officer, who is assisted by the Executive Committee.

To help carry out its responsibilities, the Board has also established the following committees with terms of reference setting out matters relevant to the committees' composition, responsibilities and administration:

- Board Audit & Risk Committee
- Nomination & Remuneration Committee

Board Audit & Risk Committee

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

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

The membership of the Committee comprises four Non-Executive Directors, two of whom are independent. Mr David Somers, a qualified accountant who has relevant financial experience, is the Chairman of the Committee. The other Committee members are Sir Edward Leigh, Mr Samer Tamimi and Mr Faris Sharaf. At the invitation of the Chairman of the Committee, the Chief Executive Officer, the Head of Internal Audit, the Chief Risk Officer, Head of Compliance, External Auditors and the Head of Finance regularly attend meetings. Key activities for the year ended 31 December 2013 included:

- The Committee met regularly to review quarterly reports received from: Executive Risk & Compliance Committee (and minutes), Chief Risk Officer, Head of Internal Audit and Head of Compliance; six meetings took place during the year;
- The Committee reviewed EAB's Annual Report 2012 and Financial Statements;
- Received quarterly updates from the Company's Senior Statutory Auditor;
- Reviewed EAB's ICAAP and associated Board decision-making processes as well as EAB's ILAA, and EAB's approach to reverse stress testing and EAB's Recovery & Resolution Plans;
- Reviewed the Risk Map of EAB; monitored compliance with Risk Appetite Statements and Measures along with corresponding Values of Appetite;
- Reviewed Overarching Risk Dashboard and material Risk

CORPORATE GOVERNANCE CONTINUED

Dashboards and reported critical risks to EAB Board from Chief Risk Officer;

- Reviewed the Internal Audit Plan for 2014 and the Internal Audit Charter and the adequacy of the Internal Audit Function. Following the Committee's approval of the Internal Audit Budget in consultation with Executive Management, the Board confirm that as at 28 January 2014 they are satisfied that Internal Audit has appropriate resources;
- Reviewed various compliance and financial crime prevention related policies as well as various Treasury related policies; and
- A review assessing the qualification, expertise and resource, effectiveness and independence of the External Auditors was undertaken and the results reviewed by the Committee.

Nomination & Remuneration Committee

The Nomination & Remuneration Committee's primary responsibilities are to:

- Consider and recommend candidates for appointment to the Board of Directors and Board Committees;
- Appoint the Executive Committee;
- Regularly review succession planning;
- Recommend the terms of the Company's Remuneration Policy and undertake the annual review of the Remuneration Policy Statement in line with the FCA Remuneration Code requirements; and
- Recommend Key Performance Indicators ("KPI") for FCA "Code Staff", review their performance assessments, bonuses and salary proposals taking into consideration input from risk management functions.

The membership of the Committee comprises Non-Executive Directors, two of whom are independent. The members of the Committee are Mr Nemeh Sabbagh (Chairman of the Committee), Mr David Somers and Sir Edward Leigh.

- Key activities for the year ended 31 December 2013 included:
- Reviewed Code Staff KPI and performance assessments, bonus and salary proposals taking into consideration input from risk management functions;
- Reviewed and recommended for approval the Company's Remuneration Policy and reviewed and approved the Company's Remuneration Policy Statement;
- Reviewed the Succession Plan for Senior Management; and
- Terms of Reference of the Committee were reviewed and updated.
- A summary of EAB's employee Remuneration Policy is contained in the Strategic Report.

Executive Committee

The Executive Committee represents the principal forum for conducting the day-to-day business of the Company. Whilst retaining the ultimate responsibility for the action taken, the Executive Committee at its discretion has delegated certain responsibilities to the following standing sub-committees:

- Asset & Liability Committee (ALCO)
- Executive Risk & Compliance Committee
- Executive Credit Committee

DIRECTORS' REPORT

The Directors present their annual report on the affairs of Europe Arab Bank plc ("EAB" or "the Company" which includes the branches of Europe Arab Bank plc in Austria, France, Germany, Italy and Spain), inclusive of subsidiaries ("the EAB Group"), together with the strategic report, financial statements and auditor's report, for the year ended 31 December 2013. EAB is registered in England and Wales with number 5575857 and is authorised by the PRA and regulated by the FCA and the PRA.

Results

The profit after taxation for the year amounts to €1.7m (2012: loss of €54.7m). The Directors do not propose any dividend to be paid for 2013 (2012: €nil).

Post-balance Sheet Events

There have been no reportable events subsequent to the balance sheet date.

Changes in Accounting Policies

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

Directors

The Directors who served during the year were as follows:

Mr Nemeh Sabbagh – Chairman
Mr Ziyad Akrouk – Chief Executive Officer
Mr Achim Klueber – Executive Director
Mr David Somers – Independent Non-Executive Director
Sir Edward Leigh – Independent Non-Executive Director
Mr Faris Sharaf – Non-Executive Director
Mr Ghassan Tarazi – Non-Executive Director
Mr Samer Tamimi – Non-Executive Director

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

Directors' Indemnities

The Articles of Association of EAB provide that, subject to the Companies Act 2006, Directors and other officers are entitled to be indemnified out of the assets of the Company against all costs, charges, expenses, losses or liabilities arising in connection with the performance of their functions. Such indemnity provisions have been in place during the period and remain in force at the date of this report; appropriate insurance cover in respect of such liability is maintained.

Auditors

The Company has a policy governing appointment of external auditors for non-audit engagements, which allows monitoring of independence of external auditors.

Each of the persons who is a Director at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be considered at the forthcoming Annual General Meeting.

Finally, the Directors would like to extend their thanks to all the staff for their continued commitment to EAB and contributions during 2013.

Approved by the Board and signed on its behalf by:

Andrew Macdonald
Company Secretary
Date: 6 February 2014
13 - 15 Moorgate
London EC2R 6AD

OPENING OPPORTUNITIES. CONNECTING CLIENTS TO MENA MARKETS. BUILDING REWARDING RELATIONSHIPS.

Algeria

Bahrain

Egypt

Iraq

Jordan

Kuwait

Lebanon

Libya

Morocco

Oman

Palestine

Qatar

Saudi Arabia

Sudan

Syria

Tunisia

Turkey

UAE

Corporate & Institutional Banking

The CIB team continues to focus on making it easy for clients to do business across borders, providing seamless access to 19 MENA countries and the Group's network of 600 branches around the world.

Private Banking

Private Banking clients benefit from the Arab Bank Group network, a highly personalised service, and a comprehensive range of product offerings for wealth preservation and wealth creation.

Treasury Services

In addition to providing clients with bespoke risk management solutions in the money, capital, foreign exchange and derivative markets, Treasury plays a key role in managing liquidity for EAB.

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board and signed on its behalf by:

Andrew Macdonald
Company Secretary
Date: 6 February 2014
13 - 15 Moorgate
London EC2R 6AD

INDEPENDENT AUDITOR'S REPORT

to the members of Europe Arab Bank plc

We have audited the financial statements of Europe Arab Bank plc for the year ended 31 December 2013 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1 to the group financial statements, the group in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Oliver Grundy, FCA
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and
Statutory Auditor
London, United Kingdom
Date: 6 February 2014

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2013

Continuing operations	Notes	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
Interest and similar income	2	51,494	60,261
Interest and similar expense	2	(17,716)	(26,354)
Net interest and similar income		33,778	33,907
Fee and commission income	3	18,979	21,680
Fee and commission expense	3	(1,364)	(944)
Net trading gains	4	1,909	2,893
Net gains/(losses) from financial assets and liabilities designated at fair value through profit or loss	5	600	(19,959)
Gain on sale of available for sale securities		-	123
Other operating income	6	950	757
Net operating income		54,852	38,457
Depreciation of property, plant and equipment	18	(2,037)	(2,223)
Other operating expenses	7	(35,143)	(40,339)
Total operating expenses before impairment losses		(37,180)	(42,562)
Impairment loss expense	9	(15,400)	(50,183)
Profit/(loss) before tax		2,272	(54,288)
Tax expense	10	(622)	(426)
Profit/(loss) for the year		1,650	(54,714)
Attributable to:			
Owners of the Company		1,647	(54,717)
Non-controlling interests		3	3
		1,650	(54,714)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000 (Restated)
Profit/(loss) for the year	1,650	(54,714)
Items that will not be reclassified subsequently to profit or loss:		
Re-measurement of net defined benefit liability	(26)	1,703
	(26)	1,703
Items that may be reclassified subsequently to profit or loss:		
Available for sale financial assets:		
- Fair value gains taken to equity on available for sale financial investments	574	1,958
- Less: gains recycled to profit or loss	-	(123)
	574	1,835
Exchange differences on translation of non-Euro denominated operations	(665)	786
	(91)	2,621
Other comprehensive (loss)/income for the year	(117)	4,324
Total comprehensive income for the year	1,533	(50,390)
Attributable to:		
Owners of the Company	1,530	(50,393)
Non-controlling interests	3	3
	1,533	(50,390)

CONSOLIDATED BALANCE SHEET

as at 31 December 2013

	Notes	2013 €'000	2012 €'000 (Restated)	2011 €'000 (Restated)
Assets				
Cash and balances at central banks	11	320,832	1,508,954	1,351,134
Due from banks	12	663,189	546,317	408,583
Fair value through profit or loss				
- Held for trading	13	456,762	264,495	241,797
- Designated	13	-	-	20,256
Loans and advances to customers	14	1,514,196	1,624,997	1,767,847
Financial investments				
- Available for sale	15	382,040	187,071	238,341
- Held to maturity	15	79,295	86,329	190,615
Derivative financial instruments	17	10,486	16,892	24,893
Property, plant and equipment	18	32,669	34,797	35,361
Other assets	19	20,546	19,316	18,782
Total assets		3,480,015	4,289,168	4,297,609
Liabilities and Equity				
Liabilities				
Due to banks	21	999,535	1,830,293	1,749,634
Due to customers	22	1,949,575	1,909,033	1,998,890
Derivative financial liabilities	17	22,328	28,184	27,824
Other liabilities	23	20,793	27,048	29,814
Current tax liabilities		485	330	610
Retirement benefit liabilities – defined benefit scheme	20	2,149	2,570	5,038
Subordinated liabilities	24	182,877	190,970	194,669
Total liabilities		3,177,742	3,988,428	4,006,479
Equity				
Called up share capital	25	609,998	609,998	549,998
Retained earnings		(301,801)	(303,429)	(250,381)
Available for sale reserve		715	141	(1,694)
Foreign exchange reserve		(6,833)	(6,168)	(6,954)
Equity attributable to equity holders of parent		302,079	300,542	290,969
Non-controlling interest		194	198	161
Total equity		302,273	300,740	291,130
Total liabilities and equity		3,480,015	4,289,168	4,297,609

These financial statements were approved by the Board of Directors and authorised for issue on 6 February 2014.
Signed on behalf of the Board of Directors.

Ziyad Akrouk
Director

Achim Klueber
Director

COMPANY BALANCE SHEET

as at 31 December 2013

	Notes	2013 €'000	2012 €'000 (Restated)	2011 €'000 (Restated)
Assets				
Cash and balances at central banks	11	320,832	1,508,954	1,351,134
Due from banks	12	663,189	546,317	408,583
Fair value through profit or loss				
- Held for trading	13	456,762	264,495	241,797
- Designated	13	-	-	20,256
Loans and advances to customers	14	1,514,196	1,624,997	1,767,847
Financial investments				
- Available for sale	15	382,040	187,071	238,341
- Held to maturity	15	79,295	86,329	190,615
Derivative financial instruments	17	10,486	16,892	24,893
Investment in subsidiaries		30,597	32,627	31,606
Property, plant and equipment	18	4,919	5,035	6,483
Other assets	19	21,448	20,452	17,521
Total assets		3,483,764	4,293,169	4,299,076
Liabilities and Equity				
Liabilities				
Due to banks	21	999,535	1,830,293	1,749,634
Due to customers	22	1,952,255	1,912,670	2,000,895
Derivative financial liabilities	17	22,328	28,184	27,824
Other liabilities	23	21,755	27,474	29,672
Current tax liabilities		485	330	610
Retirement benefit liabilities – defined benefit scheme	20	2,149	2,570	5,038
Subordinated liabilities	24	182,877	190,970	194,669
Total liabilities		3,181,384	3,992,491	4,008,342
Equity				
Called up share capital	25	609,998	609,998	549,998
Retained earnings		(308,321)	(309,450)	(257,587)
Available for sale reserve		715	141	(1,694)
Foreign exchange reserve		(12)	(11)	17
Total equity		302,380	300,678	290,734
Total liabilities and equity		3,483,764	4,293,169	4,299,076

These financial statements were approved by the Board of Directors and authorised for issue on 6 February 2014.
Signed on behalf of the Board of Directors.

Ziyad Akrouk
Director

Achim Klueber
Director

Company Registration No. 5575857

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Ordinary Share Capital €'000	Available for Sale Reserve €'000	Foreign Exchange Reserve €'000	Retained Earnings €'000	Total Equity attributable to equity holders of the Company €'000	Non-controlling Interests €'000	Total Equity €'000
As at 31 December 2011	549,998	(1,694)	(6,954)	(240,202)	301,148	161	301,309
Effect of change in accounting policy for retirement benefit obligations	-	-	-	(10,179)	(10,179)	-	(10,179)
As Restated	549,998	(1,694)	(6,954)	(250,381)	290,969	161	291,130
Ordinary shares issued	60,000	-	-	-	60,000	-	60,000
Loss for the year attributable to shareholders	-	-	-	(54,714)	(54,714)	-	(54,714)
Other comprehensive income	-	1,835	786	1,703	4,324	-	4,324
Net assets attributable to Non-controlling Interest	-	-	-	(37)	(37)	37	-
As at 31 December 2012	609,998	141	(6,168)	(303,429)	300,542	198	300,740
Ordinary shares issued	-	-	-	-	-	-	-
Profit/(loss) for the year attributable to shareholders	-	-	-	1,650	1,650	-	1,650
Other comprehensive income	-	574	(665)	(26)	(117)	-	(117)
Net assets attributable to Non-controlling Interest	-	-	-	4	4	(4)	-
As at 31 December 2013	609,998	715	(6,833)	(301,801)	302,079	194	302,273

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Ordinary Share Capital €'000	Available for Sale Reserve €'000	Foreign Exchange Reserve €'000	Retained Earnings €'000	Total Shareholders Equity €'000
As at 31 December 2011	549,998	(1,694)	17	(247,408)	300,913
Effect of change in accounting policy for retirement benefit obligations	-	-	-	(10,179)	(10,179)
As Restated	549,998	(1,694)	17	(257,587)	290,734
Ordinary shares issued	60,000	-	-	-	60,000
Profit/(loss) for the year attributable to shareholders	-		-	(53,566)	(53,566)
Other comprehensive income	-	1,835	(28)	1,703	3,510
As at 31 December 2012	609,998	141	(11)	(309,450)	300,678
Ordinary shares issued	-	-	-	-	-
Profit/(loss) for the year attributable to shareholders	-	-	-	1,155	1,155
Other comprehensive income	-	574	(1)	(26)	547
As at 31 December 2013	609,998	715	(12)	(308,321)	302,380

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2013

	2013 €'000	2012 €'000
Cash flows from operating activities		
Profit/(loss) before tax, adjusted for:	2,272	(54,288)
- Depreciation	2,037	2,223
- Impairment loss expense	15,400	50,183
- Foreign exchange (loss)/gain on subordinated liabilities	(8,093)	(3,699)
- Other non-trading assets	4,677	(1,300)
- Other non-trading liabilities	(4,106)	(2,766)
- Remeasurement of defined benefit obligation	(8,503)	-
	3,684	(9,647)
(Increase)/decrease in operating assets		
Funds advanced to customers	95,401	84,667
Funds advanced to banks	(116,872)	(137,734)
Fair value through profit or loss and derivatives	(191,717)	5,919
Financial investments	(187,361)	165,391
	(400,549)	118,243
(Decrease)/increase in operating liabilities		
Customer deposits	40,542	(89,857)
Funds received from banks	(830,758)	80,659
	(790,216)	(9,198)
Income taxes paid	(467)	(706)
Net cash (outflows)/inflows from operating activities	(1,187,548)	98,692
Cash flows from investing activities		
Acquisition of property, plant and equipment	(574)	(873)
Net cash outflows from investing activities	(574)	(873)
Flows from financing activities		
Proceeds from issue of ordinary shares	-	60,000
Net cash inflows from financing activities	-	60,000
Net (decrease)/increase in cash and cash equivalents	(1,188,122)	157,819
Cash and cash equivalents at 1 January	1,508,954	1,351,134
Effects of exchange rates on cash and cash equivalents	-	1
Cash and cash equivalents at 31 December	320,832	1,508,954

COMPANY CASH FLOW STATEMENT

Year ended 31 December 2013

	2013 €'000	2012 €'000
Cash flows from operating activities		
Profit/(loss) before tax, adjusted for:	1,965	(53,140)
- Depreciation	1,637	1,538
- Impairment loss expense	15,400	50,183
- Net foreign exchange loss on subordinated liabilities and net investment in foreign operations	(7,655)	(2,886)
- Other non-trading assets	4,910	(4,172)
- Other non-trading liabilities	(3,570)	(2,198)
- Remeasurement of defined benefit obligations	(8,503)	-
	4,184	(10,675)
(Increase)/decrease in operating assets		
Funds advanced to customers	99,401	84,667
Funds advanced to banks	(116,872)	(137,734)
Fair value through profit or loss and derivatives	(191,717)	5,919
Financial investments	(191,361)	165,391
	(400,549)	118,243
(Decrease)/increase in operating liabilities		
Customer deposits	39,585	(88,225)
Funds received from banks	(830,758)	80,659
	(791,173)	(7,566)
Income taxes paid	(467)	(706)
Net cash (outflows)/inflows from operating activities	(1,188,005)	99,296
Cash flows from investing activities		
Acquisition of property, plant and equipment	(117)	(1,476)
Net cash outflows from investing activities	(117)	(1,476)
Flows from financing activities		
Proceeds from issue of ordinary shares	-	60,000
Net cash inflows from financing activities	-	60,000
Net (decrease)/increase in cash and cash equivalents	(1,188,122)	157,820
Cash and cash equivalents at 1 January	1,508,954	1,351,134
Effects of exchange rates on cash and cash equivalents	-	-
Cash and cash equivalents at 31 December	320,832	1,508,954

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

1. ACCOUNTING POLICIES

Corporate information
Europe Arab Bank plc is incorporated and registered in England and Wales and provides a wide range of banking and financial services including Corporate & Institutional Banking, Private Banking and Treasury services.

Basis of preparation
The consolidated financial statements and the individual financial statements of Europe Arab Bank plc ('the Company'; and 'the Group' including subsidiaries respectively (see next page)) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body.

The financial statements are presented in Euros (€), which is the functional currency of the Company and the Group. The financial statements have been prepared under a going concern basis as set out in the Strategic Report.

Accounting convention
The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies are set out below.

Adoption of new and revised standards
The following new and revised standards and interpretations have been adopted in the current year.

Amendments to IAS 1 Presentation of financial statements (amended June 2011)
The Group has applied the amendments to IAS 1 titled Presentation of Items of Other Comprehensive Income. The amendment increases the required level of disclosure within the statement of comprehensive income.

IAS 19 Employee Benefits (revised June 2011)
In the current year, the Group has applied IAS 19 (as revised in June 2011) Employee Benefits. The Group has applied IAS 19 (as revised in June 2011) retrospectively and in accordance with the transitional provisions as set out in IAS 19.173. These transitional provisions do not have an impact on future periods. The amendments to IAS 19 change the accounting for defined benefit schemes and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and scheme assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of scheme assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated balance sheet to reflect the full value of the scheme deficit or surplus. Furthermore, the interest cost and expected return on scheme assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount under IAS 19 (as revised in June 2011), which is calculated by applying a discount rate to the net defined benefit liability or asset. IAS 19 (as revised in June 2011) also introduces more extensive disclosures in the presentation of the defined benefit cost.

These consolidated financial statements are the first financial statements in which the Group has adopted IAS 19 (as revised in June 2011). IAS 19 (as revised in June 2011) has been adopted retrospectively in accordance with IAS 8. Consequently, the Group has adjusted opening equity as of 1 January 2012 and the figures for 2012 have been restated as if IAS 19 (as revised in June 2011) had always been applied. The impact on assets, liabilities and equity as at 1 January 2012 on the application of IAS 19 (as revised in June 2011) is disclosed below:

Impact on assets, liabilities and equity as at 1 January 2012 – Group

	As at 1 January 2012 as previously reported €'000	IAS 19 adjustments €'000	As at 1 January 2012 (as restated) €'000
Retirement benefit assets – defined benefit scheme			
- Decrease in asset previously reported	5,141	(5,141)	-
Retirement benefit liability – defined benefit scheme			
- Increase in liability	-	(5,038)	5,038
Retained earnings – decrease	(240,202)	(10,179)	(250,381)

Impact on assets, liabilities and equity as at 31 December 2012 – Group

	As at 31 December 2012 as previously reported €'000	IAS 19 adjustments €'000	As at 31 December 2012 (as restated) €'000
Retirement benefit assets – defined benefit scheme			
- Decrease in asset previously reported	5,907	(5,907)	-
Retirement benefit liability – defined benefit scheme			
- Increase in liability	-	(2,570)	2,570
Retained earnings – decrease	(294,952)	(8,477)	(303,429)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

1. ACCOUNTING POLICIES (CONTINUED)

Impact on Other Comprehensive Income - Group

	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
Increase/(decrease) in re-measurement of retirement benefit obligations	(26)	1,703

Amendments to IFRS 7 Financial instruments: Disclosures

The Group has applied the amendments to IFRS 7 titled Disclosures – Transfers of Financial Assets in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred. The amendments did not have a material impact on the financial statements of the Group for the current year.

Amendments to IAS 12 Income taxes

The Group has applied the amendments to IAS 12 (December 2010) titled Deferred tax: Recovery of underlying assets. The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in IAS 40 Investment Property. The amendments did not have a material impact on the financial statements of the Group for the current year.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 1 (amended) Government Loans
- IFRS 7 (amended) Disclosures - Offsetting Financial Assets and Financial Liabilities
- Annual Improvements to IFRSs (2009 – 2011) Cycle
- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 10, IFRS 12 and IAS 27 Investment entities (amended)
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 27 (revised) Separate Financial Statements
- IAS 28 (revised) Investments in Associates and Joint Ventures
- IAS 32 (amended) Offsetting Financial Assets and Financial Liabilities
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:
- IFRS 7 (amended) will increase the disclosure requirements where netting arrangements are in place for financial assets and financial liabilities;
- IFRS 9 will impact both the measurement and disclosures of Financial Instruments; and
- IFRS 13 will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

Basis of consolidation

The financial statements of the Group include the financial statements of Europe Arab Bank plc, and the following wholly-owned and controlled subsidiaries:

Name	Owned by	Place of incorporation	Proportion of ownership	Proportion of voting power held	Class of shares held	Method used to account for investment
13 - 15 Moorgate No. 1 Limited	Europe Arab Bank plc	England and Wales	100%	100%	Ordinary	Acquisition
13 - 15 Moorgate No. 2 Limited	Europe Arab Bank plc	England and Wales	100%	100%	Ordinary	Acquisition
Arabella for IT Services Limited	Europe Arab Bank plc	England and Wales	100%	100%	Ordinary	Acquisition
EAB Client Assets Nominee Limited	Europe Arab Bank plc	England and Wales	100%	100%	Ordinary	Acquisition

Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

1. ACCOUNTING POLICIES (CONTINUED)

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

During the year, the Company purchased the business of Arabella for IT Services Limited ("Arabella") under an Asset Purchase Agreement. Arabella has been put in members' voluntary liquidation.

Business combinations
Acquisitions of subsidiaries are accounted for using the acquisition method. The consideration for each acquisition arrangement, measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Critical accounting judgements and key sources of estimation uncertainty
The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. The critical accounting judgements are noted below.

(i) Fair value of financial instruments
Where the fair values of financial assets and liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include use of mathematical models. The inputs to these models are largely derived from observable market data, but where observable market data is not available, judgement is required to establish fair values.

(ii) Impairment losses on loans and advances
The Group reviews its individually significant loans and advances on an individual and collective basis at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. In particular, judgement by management is required in estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgement about the borrowers' financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment loss allowance.

(iii) Impairment of financial investments
The Group reviews its financial investments at each balance sheet date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

(iv) Retirement benefit obligations
The cost of defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of the plan, such estimates are subject to uncertainty.

Significant accounting policies
(a) Interest and similar income and expense
Interest and similar income on financial assets that are classified as loans and receivables, held to maturity or available for sale, and interest expense on financial liabilities other than those at fair value through profit or loss, are recognised in the 'Interest and similar income' and 'Interest and similar expense' sections of the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. Calculation of the effective interest rate takes into account fees receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition, early redemption fees and transaction costs.

(b) Non-interest income: Fee and commission income
Fee and commission income is accounted for depending on the services to which the income relates:

- Income earned on the execution of a significant item is recognised in 'Fee income' when the act is completed;
- Income earned in respect of services is recognised in 'Fee income' as the services are provided; and
- Income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Interest and similar income' (Note 1(a)).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

1. ACCOUNTING POLICIES (CONTINUED)

(c) Net trading income

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and related dividends.

(d) Financial assets

The Group classifies its financial assets in the following categories:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held to maturity investments;
- Available for sale financial assets.

Management determines the classification of financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial assets that are held for trading, and those designated by management as being at fair value through profit or loss on initial recognition.

Financial assets are classified as held for trading if they are acquired principally for the purposes of generating a profit from short-term fluctuations in price or dealers' margin, or form part of a portfolio of similar assets for which there is evidence of a recent actual pattern of short-term profit-taking, or are derivatives (not designated into a qualifying hedge relationship).

Financial assets may be designated at fair value through profit or loss only if such a designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; (b) applies to a group of financial assets, financial liabilities, or both that the Group manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract.

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

The method of determining fair value is described in note 1(h) of these financial statements.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified upon initial recognition as available for sale or at fair value through profit and loss.

Loans and receivables are initially recognised at fair value including direct and incremental transaction costs and are subsequently measured at amortised cost, using the effective interest rate method (note 1(a)), less any impairment losses.

Held to maturity investments

Held to maturity investments are non-derivative financial assets including debt securities with fixed or determinable payments that the management has the positive intention and ability to hold to maturity.

Held to maturity assets are initially recognised at fair value including direct and incremental transaction costs and are subsequently measured at amortised cost, using the effective interest rate method (note 1(a)), less any impairment losses.

Available for sale financial assets

Available for sale assets are non-derivative financial assets including debt securities that are designated as available for sale on initial recognition or are not classified into any of the other categories described above.

Available for sale assets are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included as a separate component of Shareholders' equity in other comprehensive income (OCI), until sale or impairment, when the cumulative gain or loss is transferred to the income statement. Interest determined using the effective interest method (note 1(a)), impairment losses, translation differences on monetary assets and dividends received where the right to receive payment is established are recognised in the income statement.

The method of determining fair value is described in note 1(h) of these financial statements.

Regular way purchases and sales of financial assets

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date the Group commits to purchase assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulators or convention in marketplace.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

1. ACCOUNTING POLICIES (CONTINUED)

(e) Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets not carried at fair value through the profit or loss is impaired.

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

Financial assets held at amortised cost

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

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

If, in a subsequent period, the amount of the impairment loss reduces and the reduction can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When an asset is uncollectable, it is written off against the related provision for impairment. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the income statement.

Allowances for impairment represent management's estimate of losses incurred at the balance sheet date. Impairments are calculated on an individual and collective basis using discounted expected future cash flows. Subjective judgements are made in this process. Changes in these estimates could result in a change in allowances and have a direct impact on the impairment charge.

For all reversals of impairments, it is noted that the decrease in the impairment loss related objectively to an event occurring after the initial impairment was recognised, for example from an improvement in the debtor's previous credit rating. None of the reversals of impairments has caused the assets to have a carrying value higher than its amortised cost if the impairment had never been recognised.

In determining the recoverability of the asset, the Group considers any change in the credit quality from the date the credit was initially granted up to the reporting date.

Assets classified as available for sale

When a decline in the fair value of an available for sale financial asset has been recognised in OCI and there is objective evidence of impairment, the cumulative loss, being the difference between the asset's acquisition cost and its current fair value, less any impairment loss on that asset previously recognised in the income statement is removed from equity and recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and the increase can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the income statement.

Impairment losses on available for sale equity instruments are not reversed through the income statement.

(f) Financial liabilities

The Group classifies its financial liabilities in the following categories:

- Financial liabilities designated at fair value through profit or loss; and
- Other financial liabilities.

Management determines the classification of all financial liabilities at initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise financial liabilities that are held for trading, and those designated by management as being at fair value through profit or loss on initial recognition.

Financial liabilities are classified as held for trading if they are acquired principally for the purposes of generating a profit from short-term fluctuations in price or dealers margin, or form part of a portfolio of similar liabilities for which there is evidence of a recent actual pattern of short-term profit-taking, or they are derivatives (not designated into a qualifying hedge relationship).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

1. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities may be designated at fair value through profit or loss only if such a designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; (b) applies to a group of financial assets, financial liabilities, or both that the Group manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract.

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

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

(g) Derecognition of financial assets and liabilities

Financial assets are derecognised when the right to receive cash flows from the assets has expired; or when the Group has transferred its contractual right to receive the cash flows of the financial assets, and substantially all the risks and rewards of ownership; or where control is not retained.

Financial liabilities are derecognised when they are extinguished, that is when all obligations are discharged, cancelled or have expired.

(h) Determining fair value

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price.

Subsequently, the fair value of financial instruments that are quoted in an active market are based on bid price (for assets) and offer price (for liabilities). Where there is no quoted market price in an active market, fair values are determined using valuation techniques which refer to observable market data. These include comparison with similar market instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where the fair value cannot be reliably determined for an investment in an equity instrument, the instrument is measured at cost.

(i) Derivatives

Derivatives are classified as held for trading and accounted for in accordance with note 1(d) unless they are designated into a qualifying hedge relationship.

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset in accordance with note 1(k) below.

Hedge accounting
The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risks, the Group applies hedge accounting for transactions which meet specified criteria.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedge relationship at inception and on an ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument’s effectiveness in offsetting the changes in fair value attributable to the hedged risk in the hedged item, at inception and on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognised in the income statement in ‘Net trading income’.

Embedded derivatives
Derivatives may be embedded in other financial instruments. Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract; the terms of the embedded derivative are the same as those of a stand-alone derivative; and the combined contract is not held for trading or designated at fair value through profit or loss.

(j) Sale and repurchase agreements

Investment and other securities may be lent or sold subject to a commitment to repurchase them (a ‘repo’). Such securities are retained on the balance sheet when substantially all the risks and rewards of ownership remain with the Group, and the counterparty liability is included separately on the balance sheet as appropriate. Similarly, where the Group borrows or purchases securities subject to a commitment to resell them (a ‘reverse repo’) but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the balance sheet. The difference between sale and repurchase price is accrued over the life of the agreements using the effective interest method (see note 1(a)).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

1. ACCOUNTING POLICIES (CONTINUED)

(k) Offset of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet where there is a legal right to offset the recognised amounts and the parties intend to settle the cash flows on a net basis, or realise the asset and settle the liability simultaneously.

(l) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment are depreciated at their depreciable amounts according to the straight-line method over the estimated useful life of each class of asset. Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. The useful life for each class of asset is as follows:

Building	75 years
Furniture, fixtures and fittings	6 years
Software	5 years
Motor vehicles	5 years
Computer, communication and equipment	3 years
Leasehold improvements	Over the remaining life of the lease

At each balance sheet date property, plant and equipment are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the higher of the asset's net selling price and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

The carrying values of fixed assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount.

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

(m) Leases

Operating lease rentals payable are recognised as an expense in the income statement on a straight-line basis over the lease term unless another systematic basis is more appropriate.

(n) Employee benefits

Short-term employee benefits, such as salaries, paid absences, and other benefits, are accounted for on an accruals basis over the period which employees have provided services in the year. Bonuses are recognised to the extent that the Group has a present obligation to its employees that can be measured reliably. All expenses related to employee benefits are recognised in the income statement in staff costs, which is included within operating expenses.

The Group provides both defined benefit and defined contribution pension scheme for its staff.

For defined benefit retirement benefit scheme, the cost of providing benefits is determined using the projected unit credit method with actuarial valuations being carried at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled. Past service cost is recognised in the income statement in the period of scheme amendment. Net-interest is calculated by applying a discount rate to the net defined benefit liability or asset.

The retirement benefit obligation recognised in the consolidated balance sheet represents the deficit or surplus in the Group's defined benefit scheme. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the scheme or reductions in the future contributions to the scheme.

For defined contribution schemes, the Group recognises contributions due in respect of the accounting period in the income statement. Any contributions unpaid at the balance sheet date are included as a liability.

(o) Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation as a result of past events, and a reliable estimate can be made of the amount of the obligation.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

1. ACCOUNTING POLICIES (CONTINUED)

(p) Taxes

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in Shareholders' equity, in which case it is recognised in Shareholders' equity.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous year.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is determined using tax rates and legislation enacted, or substantively enacted, by the balance sheet date and is expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(q) Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates. Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the period end.

Transactions in foreign currencies are translated into Euros at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Euros at the rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in profit or loss except for differences arising on cash flow hedges. Non-monetary items denominated in foreign currencies that are stated at fair value are translated into Euros at foreign exchange rates ruling at the dates the values were determined. Translation differences arising on non-monetary items measured at fair value are recognised in profit or loss except for differences arising on available-for-sale non-monetary financial assets, such as equity shares, which are included in the available-for-sale reserve in equity unless the asset is the hedged item in a fair value hedge.

The assets and liabilities of non-Euro denominated operations are translated into Euros at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into Euros at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on the translation of foreign operations are recognised directly in equity.

(r) Capital instruments

The Group classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities. The components of a compound financial instrument issued by the Group are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate.

(s) Cash and cash equivalents

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

(t) Segment reporting

The Group's segmental reporting is based on the following strategic business units: Corporate & Institutional Banking; Treasury; Private Banking and Others, which includes centralised functions.

(u) Company income statement

The Group has availed the exemption under Section 408 of the Companies Act 2006 and has not published an individual profit and loss account of the Company.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

2. INTEREST AND SIMILAR INCOME AND EXPENSE

	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
Group		
Interest and similar income		
Cash and funds held with central banks	128	2,469
Due from banks	2,568	4,325
Fair value through profit or loss	3,271	5,377
Loans and advances to customers	39,312	42,759
Financial investments	6,215	5,331
Total interest and similar income	51,494	60,261
Interest and similar expense		
Due to banks	(4,409)	(14,288)
Customer accounts	(11,927)	(10,271)
Subordinated liabilities	(1,380)	(1,795)
Total interest and similar expense	(17,716)	(26,354)
Net interest and similar income	33,778	33,907

3. FEES, COMMISSION INCOME AND EXPENSE

	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
Group		
Banking and credit related fees and income	16,430	18,757
Other commissions and fee income	2,549	2,923
Fees and commission income	18,979	21,680
Fees and commission expense	(1,364)	(944)

Fees arising from trust and other fiduciary activities that result in the holding of assets on behalf of individuals, trusts or other institutions amounted to €56,207 (2012: €52,875).

4. NET TRADING GAINS

	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
Group		
Foreign exchange dealing	696	1,306
Others	1,213	1,587
	1,909	2,893

Net interest income on held for trading financial instruments has been included in Interest and similar income and expense (note 2).

5. NET GAINS/(LOSSES) FROM FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
Group		
Fair value movement of financial assets designated at fair value	600	(19,959)
	600	(19,959)

Net interest income on financial assets and liabilities designated at fair value through profit or loss has been included in Interest and similar income and expense (note 2).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

6. OTHER OPERATING INCOME

	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
Group		
Revenue from services	275	212
Services to Arab Bank Group	259	201
Other revenue	416	344
	950	757

7. OPERATING EXPENSES

	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
Group		
Staff costs (see note 8)	21,729	24,584
Administrative expenses	7,692	8,969
Auditor's remuneration (see below)	678	781
Operating lease rentals	1,467	1,499
Other expenses	3,577	4,506
	35,143	40,339

Auditor's remuneration
Amounts paid and payable to the Group's principal auditor, Deloitte LLP and its affiliated firms were as follows:

	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
Group		
Fees payable to the Group's auditor for the audit of the Company's annual accounts	387	406
Fees payable to Group's auditor and their affiliates for other services to the Group:		
- The audit of the Company's subsidiaries pursuant to legislation	11	25
Total audit fees	398	431
Other services:		
- Audit-related assurance services	145	195
- Taxation compliance services	135	130
- Other assurance services	-	25
Total non-audit fees	280	350
	678	781

8. STAFF COSTS

	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
Group		
Salaries, wages and allowances	16,269	19,926
Social security costs	2,724	2,762
Pension costs – defined benefit scheme (see note 20(d))	1,337	795
Pension costs – defined contribution scheme	1,399	1,101
	21,729	24,584

The average number of permanent persons employed by the Group in 2013 was 159 (2012: 179). Of these, 55 (2012: 62) were employed in the strategic business units and credit administration; 86 (2012: 97) were employed in the support units and 18 (2012: 20) were employed in control and risk functions. Total number of persons employed at the end of 2013 was 158 (2012: 162).

The total number of persons employed by the Company at the end of 2013 was 158 (2012: 143).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

9. IMPAIRMENT LOSS EXPENSE

	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
Group		
Loans and advances to customers	13,039	48,473
Financial investments – held to maturity	4,000	5,500
Less: recoveries/releases during the year	(1,639)	(3,790)
	15,400	50,183

10. TAX EXPENSE

	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
Group		
Current taxation:		
UK corporation tax charge for the year	(299)	-
Foreign tax for current year	(329)	(411)
Foreign tax adjustment in respect of prior year	6	(15)
Tax adjustment in respect of prior year	-	-
Taxation expense	(622)	(426)

The actual tax charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 23.25% (2012: 24.5%) as follows:

	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
Group		
Profit/(loss) before tax	2,272	(54,288)
Expected tax charge/(credit) at 23.25% (2012: 24.5%)	528	(13,301)
Non-deductible items	508	577
Deductible items included in reserves	(133)	340
Foreign profits taxed at other rates	323	426
Unutilised losses carried forward	-	12,384
Brought forward losses utilised	(604)	-
Actual tax charge	622	426

At the balance sheet date, the Company has unused estimated tax losses of €354m (2012: €357m) available for offset against future profits. A deferred tax asset of €74m (2012: €86m) has not been recognised as there is insufficient evidence at present that the asset will be recovered. The asset will be recovered if future taxable profits arise that could be offset against the deferred tax asset when it reverses.

11. CASH AND BALANCES AT CENTRAL BANKS

	2013 €'000	2012 €'000
Group and Company		
Cash	2,041	1,699
Balances with central banks	318,791	1,507,255
	320,832	1,508,954

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

12. DUE FROM BANKS

	2013 €'000	2012 €'000
Group and Company		
Current accounts	92,074	35,234
Time deposits	571,115	511,083
Due from banks before impairment	663,189	546,317
Impairment loss allowances	-	-
	663,189	546,317
Amounts above include:		
Due from parent company	32,743	47,523
Due from fellow subsidiaries	2,998	20

13. FAIR VALUE THROUGH PROFIT OR LOSS

	2013 €'000	2012 €'000
Group and Company		
Held for trading – bonds (quoted)	456,762	264,495
	456,762	264,495

	2013 €'000	2012 €'000
Group and Company		
Designated as at fair value through profit or loss – (loan)	-	-
	-	-

	2013 €'000	2012 €'000
Changes in fair value recognised during the year attributable to changes in credit risk	600	(19,959)

14. LOANS AND ADVANCES TO CUSTOMERS

	2013 €'000	2012 €'000
Group and Company		
Discounted bills	44,100	72,870
Corporate loans	1,596,064	1,750,061
Other advances	46,595	47,190
Total before impairment	1,686,759	1,870,121
Impairment loss allowances (note 16)	(172,563)	(245,124)
	1,514,196	1,624,997

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

15. FINANCIAL INVESTMENTS

	2013 €'000	2012 €'000
Group and Company		
Available-for-sale financial investments (quoted)		
Bonds	382,040	187,071
	382,040	187,071

	2013 €'000	2012 €'000
Held to maturity financial investments – bonds (quoted)		
Gross carrying amount	91,295	94,329
Impairment loss allowances (note 16)	(12,000)	(8,000)
	79,295	86,329

In 2008 the Group reclassified certain securities with a book value of €535m out of "Held for trading" (fair value through profit or loss) to "Held to maturity". The deterioration of the world's financial markets that occurred during the year was considered to be a rare circumstance, under the amended IAS39 and IFRS 7, which permitted reclassification of these securities. The Group was able to apply fair values as at 1 July 2008 to determine the carrying value.

If the reclassifications had not occurred, the income statement would have included additional fair value movements of positive €0.2m (2012: positive €1.6m). Interest income of €0.1m (2012: €0.8m) has been recognised in the income statement against these securities.

The fair value of the reclassified securities is disclosed in note 28. The Group expects to recover the full par value against the reclassified securities on maturity. The average effective interest rate of these securities when reclassified was 5.6%.

16. IMPAIRMENT LOSS ALLOWANCES

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

	Gross carrying amount €'000	Impairment loss allowance €'000	Net carrying amount €'000
Group and Company 2013			
Due from banks	663,189	-	663,189
Loans and advances to customers	1,686,759	(172,563)	1,514,196
Held to maturity assets	91,295	(12,000)	79,295
Available for sale assets	382,040	-	382,040
	2,823,283	(184,563)	2,638,720
Group and Company 2012			
Due from banks	546,317	-	546,317
Loans and advances to customers	1,870,121	(245,124)	1,624,997
Held to maturity assets	94,329	(8,000)	86,329
Available for sale assets	187,071	-	187,071
	2,697,838	(253,124)	2,444,714

The policy on impairment measurement is provided in the accounting policies note 1(e) and details of the methodology in note 31. 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

17. DERIVATIVES

The Group's objectives and policies on managing the risks that arise in connection with derivatives are included in note 1(i) and note 30.

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.

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

		2013			2012	
	Notional €'000	FV Asset €'000	FV Liability €'000	Notional €'000	FV Asset €'000	FV Liability €'000
Derivatives held for trading						
Interest rate swaps	514,011	8,007	12,911	677,312	13,150	24,530
Interest rate futures	125,580	381	269	30,000	-	583
Currency forward contracts	691,137	1,772	3,495	1,123,304	3,742	2,572
	1,330,728	10,160	16,675	1,830,616	16,892	27,685
Derivatives used as fair value hedges						
Interest rate swaps	233,297	326	5,653	26,546	-	499
Total recognised derivative assets and liabilities	1,564,025	10,486	22,328	1,857,162	16,892	28,184

Fair value hedges
Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in interest rates. The financial instruments hedged for interest rate risk include fixed rate loans, available-for-sale debt securities and other borrowed funds. The Group uses interest rate swaps and interest rate futures to hedge interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

17. DERIVATIVES (CONTINUED)

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

	2013 €'000	2012 €'000
Group and Company		
Gains/(losses) on:		
Hedged instrument	3,334	(509)
Hedged item attributable to the hedged risk	(3,480)	499
Hedge ineffectiveness	(146)	(10)

18. PROPERTY, PLANT AND EQUIPMENT

	Land €'000	Buildings €'000	Furniture fixtures & fittings €'000	Computer and communication equipment €'000	Motor vehicles €'000	Leasehold improvements €'000	Total €'000
Group							
Cost							
As at 1 January 2012	290	32,024	955	9,036	53	5,139	47,497
Currency translation adjustments	-	813	-	66	-	-	879
Additions	-	-	-	780	-	-	780
At 31 December 2012	290	32,837	955	9,882	53	5,139	49,156
Accumulated depreciation and impairment losses							
As at 1 January 2012	-	(2,689)	(824)	(6,227)	(34)	(2,362)	(12,136)
Depreciation for the period	-	(555)	(114)	(1,100)	(11)	(443)	(2,223)
At 31 December 2012	-	(3,244)	(938)	(7,327)	(45)	(2,805)	(14,359)
Net book value	290	29,593	17	2,555	8	2,334	34,797
Cost							
As at 1 January 2013	290	32,837	955	9,882	53	5,139	49,156
Currency translation adjustments	-	135	60	(131)	2	(46)	20
Additions	-	-	2	594	-	58	654
At 31 December 2013	290	32,972	1,017	10,345	55	5,151	49,830
Accumulated depreciation and impairment losses							
As at 1 January 2013	-	(3,244)	(938)	(7,327)	(45)	(2,805)	(14,359)
Currency translation adjustments	-	(765)	-	-	-	-	(765)
Depreciation for the period	-	(539)	(38)	(1,113)	(10)	(337)	(2,037)
At 31 December 2013	-	(4,548)	(976)	(8,440)	(55)	(3,142)	(17,161)
Net book value	290	28,424	41	1,905	-	2,009	32,669

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Year ended 31 December 2013

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land €'000	Buildings €'000	Furniture fixtures & fittings €'000	Computer & communication equipment €'000	Motor vehicles €'000	Leasehold improvements €'000	Total €'000
Company							
Cost							
As at 1 January 2012	290	1,621	955	8,603	53	4,939	16,461
Additions	-	-	-	90	-	-	90
At 31 December 2012	290	1,621	955	8,693	53	4,939	16,551
Accumulated depreciation and impairment losses							
As at 1 January 2012	-	(758)	(824)	(6,050)	(34)	(2,312)	(9,978)
Depreciation	-	(136)	(114)	(903)	(11)	(374)	(1,538)
At 31 December 2012	-	(894)	(938)	(6,953)	(45)	(2,686)	(11,516)
Net book value	290	727	17	1,740	8	2,253	5,035
Cost							
As at 1 January 2013	290	1,621	955	8,693	53	4,939	16,551
Additions	-	-	21	1,376	-	124	1,521
At 31 December 2013	290	1,621	976	10,069	53	5,063	18,072
Accumulated depreciation and impairment losses							
As at 1 January 2013	-	(894)	(938)	(6,953)	(45)	(2,686)	(11,516)
Depreciation	-	(139)	(38)	(1,115)	(8)	(337)	(1,637)
At 31 December 2013	-	(1,033)	(976)	(8,068)	(53)	(3,023)	(13,153)
Net book value	290	588	-	2,001	-	2,040	4,919

19. OTHER ASSETS

	2013 €'000	2012 €'000
Group		
Prepayments	2,738	3,512
Accrued interest receivable	14,334	10,063
Other assets and receivables	3,474	5,741
	20,546	19,316
Amounts above include:		
Due from parent company	663	640
Due from fellow subsidiaries	-	-
Company		
Prepayments	2,738	3,512
Accrued interest receivable	14,334	10,063
Other assets and receivables	4,376	6,877
	21,448	20,452

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

20. RETIREMENT BENEFIT – DEFINED BENEFIT SCHEME

The Europe Arab Bank plc Pension Scheme is an occupational pension scheme containing a defined benefit section. The defined benefit section of the scheme is closed to new entrants and was closed for future accrual on 31 July 2013.

A full actuarial valuation was carried out at 1 January 2010. For the purposes of IAS 19, the preliminary results of the actuarial valuation as at 1 January 2013, which was carried out by a qualified independent actuary, have been updated on an approximate basis to 31 December 2013. There have been no changes in the valuation methodology adopted for this period's disclosures compared to the previous period's disclosures.

(a) Amounts for the current and previous periods

	2013 €'000	2012 €'000	2011 €'000	2010 €'000	2009 €'000
Defined benefit obligation	(60,176)	(59,060)	(54,596)	(48,534)	(45,178)
Fair value of plan assets	58,027	56,490	49,558	42,724	37,652
Net deficit	(2,149)	(2,570)	(5,038)	(5,810)	(7,526)
Net liability recognised	(2,149)	(2,570)	(5,038)	(5,810)	(7,526)

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

	2012 €'000	2013 €'000
Balance as at 1 January	59,060	54,596
Current service cost	338	579
Interest cost	2,651	2,630
Actuarial losses	125	1,141
Benefits paid	(1,656)	(1,326)
Past service costs	-	-
Curtailment losses	917	-
Translation adjustments	(1,259)	1,440
Balance as at 31 December	60,176	59,060

(c) Changes in the fair value of plan assets

	2013 €'000	2012 €'000
Balance as at 1 January	56,490	49,558
Interest Income	2,563	2,343
Employer contributions	1,478	1,803
Actuarial gains	350	2,820
Benefits paid	(1,656)	(1,326)
Translation adjustments	(1,198)	1,292
Balance as at 31 December	58,027	56,490

The actual return on plan assets for the year ended 31 December 2013 was €2.9m (2012: €5.1m).

(d) Total expense recognised in the income statement

	2013 €'000	2012 €'000 (Restated)
Current service cost	338	579
Past service costs and settlements	910	-
Net interest cost	89	216
	1,337	795

Past service costs and settlements include curtailment loss recognised during 2013 on closure of the scheme for future accrual.

The Company expects to make a contribution of €1.3m (2013: €1.8m) to the pension scheme during 2014, including deficit reduction contribution of €1.3m (2013: €1.3m).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

20. RETIREMENT BENEFITS (CONTINUED)

(e) Total amount included in other comprehensive income

	2013 €'000	2012 €'000 (Restated)
Expected return on plan assets	350	2,736
Experience gains/(losses)	873	(305)
Effects of change in financial assumptions – losses	(997)	(830)
Translation adjustments	(252)	102
	(26)	1,703

(f) Assets

	2013 €'000	2012 €'000
UK Equities	12,217	11,250
Corporate bonds	29,278	28,078
Cash	240	1,221
Index linked Gilts	11,447	11,400
Property	4,845	4,541
Balance as at 31 December	58,027	56,490

(g) Principal assumptions

	2013 %	2012 %
Discount rate	4.62	4.60
Expected rates of return on plan assets	4.60	4.56
Expected rate of salary increases	-	3.00
Expected rate of inflation (RPI)	3.30	3.00
Expected rate of inflation (CPI)	2.30	2.00
Allowance for commutation of pension for cash at retirement	20% of pension	

The mortality assumptions adopted imply the following life expectancies:

	Life expectancy at age 65 (years)
Male retiring in 2013	22.0
Female retiring in 2013	24.0
Male retiring in 2033	23.4
Female retiring in 2033	25.6

(h) Sensitivity

	Change in assumption	Change in liabilities
Discount rate	Decrease of 0.25% p.a.	Increase by 4.8%
Rate of inflation	Increase of 0.25% p.a.	Increase by 3.1%
Rate of mortality	Increase of life expectancy of 1 year	Increase by 2.2%
Commutation	Members commute an extra 10% of Post A Day pension on retirement	Decrease by 3.4%

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

21. DUE TO BANKS

	2013 €'000	2012 €'000
Group and Company		
Due to other banks	999,535	1,830,293
	999,535	1,830,293
Amounts above include:		
Due to parent company	432,038	1,033,594
Due to fellow subsidiaries	71,357	265,705

22. CUSTOMER ACCOUNTS

	2013 €'000	2012 €'000
Group		
Due to customers	1,949,575	1,909,033
	1,949,575	1,909,033
Company		
Due to customers	1,952,255	1,912,670
	1,952,255	1,912,670

23. OTHER LIABILITIES

	2013 €'000	2012 €'000
Group		
Accruals	9,674	11,204
Deferred income	1,859	2,260
Accrued interest payable	5,773	7,108
Other payables and liabilities	3,487	6,476
	20,793	27,048
Amounts above include:		
Due to parent company	1,004	1,915
Due to fellow subsidiaries	17	61
Company		
Accruals	10,636	11,204
Deferred income	1,859	2,260
Accrued interest payable	5,773	7,108
Other payables and liabilities	3,487	6,902
	21,755	27,474

Defaults and breaches
There have been no defaults or breaches in terms or payments of loans payable during the year.

24. SUBORDINATED LIABILITIES

	2013 €'000	2012 €'000
USD 251.785 million floating rate notes		
LIBOR plus 0.35%	73,929	77,200
LIBOR plus 0.50%	108,948	113,770
	182,877	190,970

The Notes are perpetual, subordinated to all other creditors and are listed on the Channel Islands Stock Exchange. The Notes are subscribed by Arab Bank plc and Arab Bank (Switzerland) Ltd. The Notes count as upper tier 2 capital for the Company's regulatory capital base.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

25. SHARE CAPITAL

	2013 €'000	2012 €'000
Group and Company		
Issued share capital:		
50,000 (2012 - 50,000) deferred shares of £1 each	72	72
609,925,540 (2012 - 609,925,540) ordinary shares of €1 each	609,926	609,926
As at 31 December	609,998	609,998

During the year nil (2012: 60,000,000) €1 ordinary shares were issued at par for cash consideration. These were fully subscribed by Arab Bank plc.

26. CONTINGENT LIABILITIES AND COMMITMENTS

In the ordinary course of business, the Group enters into transactions which expose it to tax, legal and business risks. Provisions are made for known liabilities which are expected to materialise. Contingent obligations and banking commitments, which the Group has entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities.

	2013 €'000	2012 €'000
Letters of credit	152,774	304,395
Acceptances	3,031	98,389
Guarantees given to third parties	1,678,150	1,812,443
Unused credit facilities and forward contract trades	93,180	203,307
	1,927,135	2,418,534

Letters of credit, acceptances and guarantees commit the Group to make payments on behalf of customers in the event of a specific act including relating to imports and exports of goods.

Unused credit facilities and forward contract trades refer to commitments to make loans and revolving credits.

Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. The potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable building operating leases are as follows:

	2013 €'000	2012 €'000
Less than one year	995	1,404
Between one and two years	805	890
Between two and three years	805	667
Between three and four years	739	667
Between four and five years	406	537
More than five years	2,841	4,059
Total commitments payable	6,591	8,224

The Group leases various offices, branches and other premises under non-cancellable operating lease arrangements. The leases have various terms, escalation and renewal rights. There are no contingent rents payable. The Group also leases equipment under non-cancellable lease arrangements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

27. RELATED PARTY DISCLOSURE, INCLUDING DIRECTORS' EMOLUMENTS

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

(a) Trading transactions

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

	Interest, fees & other income received		Interest, fees & other expense paid		Amounts owed by related parties		Amounts owed to related parties		Guarantees, acceptances & letters of credit	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000	2013 €'000	2012 €'000	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Parent company	1,049	1,426	3,101	6,811	32,473	47,534	432,038	1,118,832	77,064	189,617
Fellow subsidiaries	1	4	1,048	1,610	2,998	9	71,357	180,467	16,651	58,383
Associates*	7	78	49	139	1,035	-	5,764	24,176	2,143	1,895
	1,057	1,508	4,198	8,560	36,506	47,543	509,159	1,323,475	95,858	249,895

*Associates include entities where the parent company, Arab Bank plc, has a significant influence over the financial and operating policy decisions, and in which it holds between 20% and 50% of the voting rights.

The above transactions were unsecured and settled in cash. In addition, the transactions were typically made in the ordinary course of business and substantially on the same terms as for comparable transactions with third party counterparties. The expense recognised in the year for bad or doubtful debts in respect of the amounts owed by a related party was €nil (2012: €nil).

(b) Compensation of key management personnel

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

	2013 €'000	2012 €'000
Key management compensation		
Short-term employee benefits	4,551	4,868
Post-employment benefits	340	378
Termination benefits	24	197
	4,915	5,443

The information above includes executive Directors' remuneration detailed below.

	2013 €'000	2012 €'000
Directors' emoluments		
Chairman and Executive Directors - emoluments	1,730	1,624
- retirement and termination benefits	111	295
	1,841	1,919
Non-Executive Directors - emoluments	300	370
Number of Directors accruing benefits under retirement benefit schemes	2	2

The emoluments of the highest paid Director including pension and social security contributions amounted to €1,055,554 (2012: €777,366).

Transactions with key management personnel and each of their connected persons

Directors, other key management personnel and their connected persons have undertaken the following transactions with the Company in the normal course of banking business.

	No. of persons	2013 €'000	No. of persons	2012 €'000
Loans	5	31	6	27
Deposits	1	199	2	332

The transactions with key management personnel and their connected persons were transacted in the normal course of business with terms prevailing for comparable transactions and on the same terms and conditions applicable to other employees of the Company.

NOTES TO THE FINANCIAL STATEMENTS

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28. FAIR VALUES OF FINANCIAL INSTRUMENTS

The table below provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. This category comprises debt securities where observable prices are available in the market.
- Level 2 fair value measurements are those derived from quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data. This category comprises instruments such as interest rate swaps and forward currency contracts, valued using data such as yield curves and exchange rates, requiring little management judgement; and
- Level 3 fair value measurements are those derived from valuation techniques using significant unobservable inputs. This category comprises certain illiquid loans valued by reference to third party valuations and subject to internal assumptions using discounted cash flow models.

	2013 Level 1 €'000	2013 Level 2 €'000	2013 Level 3 €'000	2013 Total €'000
Group				
Financial assets at fair value through profit or loss				
- Held for trading	456,762	-	-	456,762
- Designated	-	-	-	-
Derivative financial instruments – assets	-	10,486	-	10,486
Financial investments				
- Available for sale	382,040	-	-	382,040
Total	838,802	10,486	-	849,288
Derivative financial instruments – liabilities	-	22,328	-	22,328
Total	-	22,328	-	22,328

	2012 Level 1 €'000	2012 Level 2 €'000	2012 Level 3 €'000	2012 Total €'000
Group				
Financial assets at fair value through profit or loss				
- Held for trading	264,495	-	-	264,495
- Designated	-	-	-	-
Derivative financial instruments – assets	-	16,892	-	16,892
Financial investments				
- Available for sale	187,071	-	-	187,071
Total	451,566	16,892	-	468,458
Derivative financial instruments – liabilities	-	28,184	-	28,184
Total	-	28,184	-	28,184

Reconciliation of Level 3 fair value measurements of financial assets

	2013 €'000	2012 €'000
Financial assets at fair value through profit or loss – designated		
Balance at 1 January	-	20,256
Net additions and settlements	(600)	(859)
Fair value gain/(loss) in income statement	600	(19,959)
Translation adjustment	-	562
Balance at 31 December	-	-

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Year ended 31 December 2013

28. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

For financial assets and liabilities carried at amortised cost, the Directors do not anticipate the fair values to be materially different from the book values considering the underlying nature of the portfolios except for the following:

	2013 Fair value €'000	2013 Book value €'000	2012 Fair value €'000	2012 Book value €'000
Financial investments – held to maturity at initial recognition	55,541	64,312	57,345	71,427
Financial investments – reclassified into held to maturity	14,988	14,983	14,745	14,902
Total	70,529	79,295	72,090	86,329

The Group did not hold any material compound instruments with embedded derivatives at the year end (2012: €nil).

29. OPERATING SEGMENTS

For management purposes, the Group is organised into three strategic business units based on products and services as follows:

- Corporate & Institutional Banking ("CIB"): principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
- Treasury: principally handling funding and liquidity for the Group. The main focus is on money markets, foreign exchange and capital markets. Treasury also provides risk management and structured product solutions for customers of other segments of the Group.
- Private Banking: principally providing high net worth clients with personal banking services tailored to their needs. Key products include deposits, loans, overdrafts, credit cards facilities, funds transfer facilities, structured investment products and offshore banking facilities.
- Other: includes items that are not allocated to the business units.

Management monitors the operating results of each of the business units separately for the purpose of performance assessment. Certain items of revenue and costs are managed on a central basis and are not allocated to business units. Interest or similar income is reported net. Management primarily relies on net interest revenue, not the gross interest revenue and expense amounts. No revenue transactions with a single nonrelated customer or counterparty amounted to 10% or more of the total revenue of the Group in 2013 or 2012.

	CIB €'000	Treasury €'000	Private Banking €'000	Other €'000	Total €'000
Group - 2013					
Net operating income	49,815	3,401	1,777	(141)	54,852
Inter-segment revenue	(5,676)	891	4,511	274	-
Total operating revenue	44,139	4,292	6,288	133	54,852
Net business unit contribution	25,454	(2,605)	(3,981)	(1,196)	17,672
Impairment loss expense	(15,391)	-	(9)	-	(15,400)
Profit/(loss) before tax	10,063	(2,605)	(3,990)	(1,196)	2,272
Tax expense	(323)	-	-	(299)	(622)
Profit/(loss) for the year	9,740	(2,605)	(3,990)	(1,495)	1,650

	CIB €'000	Treasury €'000	Private Banking €'000	Other €'000	Total €'000
Group - 2012					
Net operating income	29,922	4,436	2,262	1,837	38,457
Inter-segment revenue	(5,346)	1,445	4,837	(936)	-
Total operating revenue	24,576	5,881	7,099	901	38,457
Net business unit contribution	1,623	(2,254)	(3,984)	510	(4,105)
Impairment loss expense	(50,130)	-	(53)	-	(50,183)
Profit/(loss) before tax	(48,507)	(2,254)	(4,037)	510	(54,288)
Tax expense	(415)	-	-	(11)	(426)
Profit/(loss) for the year	(48,922)	(2,254)	(4,037)	499	(54,714)

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Year ended 31 December 2013

29. OPERATING SEGMENTS (CONTINUED)

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

Group - 2013	CIB €'000	Treasury €'000	Private Banking €'000	Other €'000	Total €'000
Segment assets	1,565,634	1,789,081	89,040	36,260	3,480,015
Segment liabilities	999,305	676,833	1,302,462	199,142	3,177,742

Group - 2012 (Restated)	CIB €'000	Treasury €'000	Private Banking €'000	Other €'000	Total €'000
Segment assets	1,651,166	2,504,576	87,481	45,945	4,289,168
Segment liabilities	1,605,278	774,804	1,397,214	211,132	3,988,428

30. RISK MANAGEMENT POLICIES

The Group's risk appetite is approved by the Board of Directors, and defines the types and amounts of risk that the Group is willing to take in pursuit of its business strategy. This is reviewed regularly and provides qualitative statements and quantitative measures to assist with the monitoring of risk appetite.

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

- risk management accountability rests with each department concerned;
- there is independent and effective risk control and assurance;
- the process is underpinned by comprehensive, proportionate, transparent and objective disclosure of risk exposures to senior management, the Board of Directors, oversight committees, regulators, rating agencies, Arab Bank Group and other stakeholders;
- capital, liquidity and earnings are protected by the effective controlling of the risk exposures across all material risk types and businesses; and
- a strong ethical and risk culture is maintained so that risk awareness is embedded into all activities.

The Group maintains high standards of internal controls, with clear accountabilities for risk management, applying a governance model which enables oversight and management of risks.

The Board of Directors has an established Committee of the Board, the Board Audit & Risk Committee, to assist the Board of Directors in fulfilling its oversight responsibilities. The function of the Board Audit & Risk Committee is to encourage and safeguard the highest standards of integrity, financial reporting, risk management and internal control on behalf of the Board of Directors.

The Chief Risk Officer ("CRO") is a senior executive who works closely with the Chief Executive Officer ("CEO"), and liaises with the Board of Directors through the Board Audit & Risk Committee. The CRO is responsible for ensuring that effective best practice risk mitigation is in place in the Group. The CRO is tasked with taking a comprehensive view of risks that might impact on the Group, embedding an effective EAB Risk Management (ERM) Framework into the overall strategy and operations, and continually strengthening the Group's approach to risk management.

EAB's risk governance is predicated on the industry standard three lines of defence model. Line One includes the Strategic Business Units and Support Units and has the responsibility for risk management. Line Two is responsible for risk control, providing independent oversight, control and challenge of risk and compliance issues, and includes Risk, Legal and Compliance. Line Three is Internal Audit and is responsible for risk assurance, providing confirmation that Lines One and Two are operating effectively and in accordance with the stipulated risk governance arrangements. The roles and responsibilities of the Risk function in Line Two are further defined under three headings: Control, Challenge and Coordination.

The information in note 31 to note 35 describes the main banking risks, committees with responsibility for these risks and the policies of the Group to manage them. The Directors are confident that the current risk management structure is sufficient for identification, monitoring and control of significant financial risks to the Group at present.

31. CREDIT RISK

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

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Year ended 31 December 2013

31. CREDIT RISK (CONTINUED)

recommendations above the delegated authorities, to the Board Panel, which consists of the Chairman, Chief Executive Officer 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 (letters of credit) credit exposures. It includes details on lending authorities, large exposures, portfolio management, transactions with parent and affiliates, country risk exposure, problematic exposures, 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.

Impairment
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.

Quality of assets 31 December 2013 Group and Company	Cash, balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Total €'000
Neither past due or impaired	984,021	1,525,576	922,097	10,486	3,442,180
Past due or individually 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

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Year ended 31 December 2013

31. CREDIT RISK (CONTINUED)

Quality of assets

31 December 2012 Group and Company	Cash, balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Total €'000
Neither past due or impaired	2,055,271	1,646,121	537,895	16,892	4,256,179
Past due or individually 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

Financial assets split by external ratings, where available, for 2013:

Group and Company	Cash, balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Total €'000
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

Financial assets split by external ratings, where available, for 2012:

Group and Company	Cash, balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Total €'000
Rated entities					
AAA to AA-	1,624,225	110,209	305,111	3,510	2,043,055
A+ to A-	380,581	58,410	149,422	19	588,432
BBB+ to B-	46,167	155,545	71,856	-	273,568
Unrated	4,298	1,300,833	11,506	13,363	1,330,000
	2,055,271	1,624,997	537,895	16,892	4,235,055

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

	2013 €'000	2012 €'000
1 - 3 - investment grade	412,228	420,875
4 - 5 - standard monitoring	789,228	876,199
6 - special monitoring	228,559	259,704
7 – watch	78,328	68,219
8 - 10 - classified	5,853	-
Total	1,514,196	1,624,997

Internal ratings are highly correlated to the external ratings but also take into account other behavioural aspects of the counterparty and historical performance.

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Year ended 31 December 2013

31. CREDIT RISK (CONTINUED)

Concentration of Risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected by changes in economic, political or other conditions. The Group monitors credit concentration risk through the Executive Risk and Compliance Committee and in turn reports material exposures and concerns to the Board Audit and Risk Committee and the Board of Directors.

Industrial exposure to financial assets and credit related contingent liabilities and commitments as at 31 December 2013:

Group and Company	Cash, balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Contingent liabilities and commitments €'000	Total €'000
Central and local government	318,870	44,524	202,827	-	135,317	701,538
Financial institutions	665,151	26,908	688,415	6,575	377,646	1,764,695
Individual	-	46,595	-	-	58	46,653
Industrial and commercial	-	1,396,169	26,855	3,911	1,414,114	2,841,049
	984,021	1,514,196	918,097	10,486	1,927,135	5,353,935

Industrial exposure to financial assets and credit related contingent liabilities and commitments as at 31 December 2012:

Group and Company	Cash, balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Contingent liabilities and commitments €'000	Total €'000
Central and local government	1,507,255	42,494	125,593	-	179,867	1,855,209
Financial institutions	548,016	72,870	366,003	9,986	634,773	1,631,648
Individual	-	47,139	-	-	90	47,229
Industrial and commercial	-	1,462,494	46,299	6,906	1,603,804	3,119,503
	2,055,271	1,624,997	537,895	16,892	2,418,534	6,653,589

Geographical exposure to financial assets and credit related contingent liabilities and commitments as at 31 December 2013:

Group and Company	Cash, balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Contingent liabilities and commitments €'000	Total €'000
UK	131,140	483,484	45,908	3,746	48,199	712,477
Europe	591,818	253,783	654,714	469	1,132,118	2,632,902
Arab Countries	69,874	772,863	122,505	6,271	266,460	1,237,973
North America	119,052	-	51,883	-	364,801	535,736
Asia	72,114	4,066	-	-	102,482	178,662
Other	23	-	43,087	-	13,075	56,185
	984,021	1,514,196	918,097	10,486	1,927,135	5,353,935

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Year ended 31 December 2013

31. CREDIT RISK (CONTINUED)

Concentration of Risk (continued)

Geographical exposure to financial assets and credit related contingent liabilities and commitments as at 31 December 2012:

Group and Company	Cash, balances with central banks and due from banks €'000	Loans and advances to customers €'000	Fair value through profit or loss and financial investments €'000	Derivatives €'000	Contingent liabilities and commitments €'000	Total €'000
UK	32,767	532,347	75,309	3,321	81,395	725,139
Europe	1,829,260	349,952	347,980	692	1,402,966	3,930,850
Arab Countries	48,966	720,250	32,059	12,861	525,189	1,339,325
North America	88,269	-	4,859	18	335,286	428,432
Asia	55,901	22,448	-	-	50,287	128,636
Other	108	-	77,688	-	23,411	101,207
	2,055,271	1,624,997	537,895	16,892	2,418,534	6,653,589

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

31. CREDIT RISK (CONTINUED)

Concentration of risk (continued)

Exposure, by country of risk, to European countries (excluding the United Kingdom) as at 31 December 2013:

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	Contingent liabilities and commitments €'000	Total €'000
Central and local government						
Austria	282	-	420	-	-	702
Benelux	-	-	91,648	-	-	91,648
Denmark	-	-	-	-	-	-
France	4,220	-	24,983	-	-	29,203
Germany	313,916	-	-	-	81,160	395,076
Italy	459	9,106	-	-	38,952	48,517
Spain	-	-	-	-	-	-
Sweden	-	-	5,049	-	-	5,049
Switzerland	-	-	-	-	-	-
Other	-	-	41,932	-	-	41,932
	318,877	9,106	164,032	-	120,112	612,127
Financial Institutions						
Austria	72,454	-	21,063	-	1,096	94,613
Benelux	-	-	153,597	-	57,785	211,382
Denmark	28,978	-	19,207	380	-	48,565
France	-	-	133,506	-	10,251	143,757
Germany	15,019	-	11,827	-	2,363	29,209
Italy	513	-	25,117	-	34,599	60,229
Spain	418	-	10,386	-	582	11,386
Sweden	69,058	-	43,326	-	-	112,384
Switzerland	86,416	-	22,779	9	3,248	112,452
Other	85	-	44,776	-	28,648	73,509
	272,941	-	485,584	389	138,572	897,486
Individual						
Austria	-	-	-	-	-	-
Benelux	-	-	-	-	-	-
Denmark	-	-	-	-	-	-
France	-	8,741	-	-	7	8,748
Germany	-	13	-	-	-	13
Italy	-	11	-	-	-	11
Spain	-	-	-	-	-	-
Sweden	-	-	-	-	-	-
Switzerland	-	235	-	-	-	235
Other	-	3	-	-	-	3
	-	9,003	-	-	7	9,010
Industrial and commercial						
Austria	-	-	-	-	20,320	20,320
Benelux	-	70,136	5,098	-	14,554	89,788
Denmark	-	-	-	-	8,991	8,991
France	-	73,356	-	80	129,352	202,788
Germany	-	13,482	-	-	133,203	146,685
Italy	-	5,506	-	-	315,617	321,123
Spain	-	38,421	-	-	134,925	173,346
Sweden	-	-	-	-	76,618	76,618
Switzerland	-	25,200	-	-	34,238	59,438
Other	-	9,573	-	-	5,609	15,182
	-	235,674	5,098	80	873,427	1,114,279
Grand total	591,818	253,783	654,714	469	1,132,118	2,632,902

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Year ended 31 December 2013

31. CREDIT RISK (CONTINUED)

Concentration of risk (continued)

Exposure, by country of risk, to European countries (excluding the United Kingdom) 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	Contingent liabilities and commitments €'000	Total €'000
Central and local government						
Austria	867	-	410	-	-	1,277
Benelux	-	-	65,787	-	-	65,787
Denmark	-	-	-	-	-	-
France	5,594	-	-	-	-	5,594
Germany	1,510,336	-	-	-	-	1,510,336
Italy	459	-	-	-	-	459
Spain	-	-	-	-	-	-
Sweden	-	-	5,202	-	-	5,202
Switzerland	-	-	-	-	-	-
Other	-	-	34,098	-	-	34,098
	1,517,256	-	105,497	-	-	1,622,753
Financial Institutions						
Austria	19,018	-	-	-	2,062	21,080
Benelux	38,037	-	100,580	-	58,394	197,011
Denmark	68,975	-	-	692	-	69,667
France	6	-	67,023	-	37,990	105,019
Germany	3,536	-	18,968	-	115,519	138,023
Italy	411	-	14,902	-	85,632	100,945
Spain	333	-	-	-	641	974
Sweden	96,479	-	25,018	-	-	121,497
Switzerland	21,600	-	-	-	1,767	23,367
Other	56,942	-	5,004	-	51,984	113,930
	305,337	-	231,495	692	353,989	891,513
Individual						
Austria	-	-	-	-	-	-
Benelux	-	155	-	-	-	155
Denmark	-	-	-	-	-	-
France	-	730	-	-	27	757
Germany	-	25	-	-	-	25
Italy	-	9	-	-	3	12
Spain	-	33	-	-	-	33
Sweden	-	-	-	-	-	-
Switzerland	-	262	-	-	-	262
Other	-	6	-	-	2	8
	-	1,220	-	-	32	1,252
Industrial and commercial						
Austria	-	-	-	-	24,795	24,795
Benelux	-	116,211	-	-	42,767	158,978
Denmark	-	-	-	-	11,096	11,096
France	-	90,180	10,988	-	81,746	182,914
Germany	-	37,659	-	-	169,374	207,033
Italy	-	30,497	-	-	448,198	478,695
Spain	6,667	43,865	-	-	154,459	204,991
Sweden	-	-	-	-	40,607	40,607
Switzerland	-	19,639	-	-	31,490	51,129
Other	-	10,681	-	-	44,413	55,094
	6,667	348,732	10,988	-	1,048,945	1,415,332
Grand total	1,829,260	349,952	347,980	692	1,402,966	3,930,850

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

31. CREDIT RISK (CONTINUED)

Credit derivatives and collateral
The Group did not hold any credit derivatives during the year (2012: €nil) to reduce the exposure to credit risk on any of the instruments.

The Group accepts certain forms of collateral subject to legal review and appropriate documentation in accordance with the Credit Policy Manual. As a principle, assets held as collateral in favour of the Group must be sufficiently liquid and their value over time sufficiently stable to provide the Group with acceptable certainty as to the value of the risk mitigation upon which it relies. Exceptions have to be approved through the credit process. The Credit Department keeps a comprehensive record of collateral received. The Group primarily accepts the following forms of collateral, subject to meeting the necessary legal requirements:

- Cash;
- Support instruments including bank, corporate and personal guarantees;
- Debt securities subject to meeting the external and/or internal rating criteria;
- Equities from companies within European Economic Area ("EEA") subject to rating, listing and liquidity requirements;
- Property, residential and/or commercial situated within EEA states or the MENA region subject to meeting the specified criteria; or
- Other security including trade and other receivables, stocks and inventories, plant and machinery and specialised assets such as aircraft and ships, etc.

The Credit Department is responsible for regular updates to the valuation of the underlying collateral as required by the Credit Policy Manual. The documentation entered into with the obligor specifies the Group's rights and ability to liquidate the collateral, if required. The Executive Credit Committee is responsible for decisions regarding liquidation or appropriation of collateral based on recommendations from the Head of Credit and advice from the Legal Department.

During the year, there was no possession of underlying collateral by the Group.

The carrying amount of financial assets recorded in the balance sheet, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of any collateral obtained. The fair value of collateral and security enhancements held against loans or advances to customers is shown below:

	2013 €'000	2012 €'000
Group and Company		
Collateral type		
Cash collateral	60,008	62,821
Banks' guarantees	279,164	44,244
Commercial real estate	299,811	234,117
Equity and debt securities	92,941	134,460
Other collateral	115,229	358,060
	847,153	833,702

32. MARKET RISK

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Risks are managed individually through the use of limits and restricting product exposures. The Asset & Liability Committee ("ALCO") sets and monitors the market risk limits and meets once a month but receives risk reports regularly. The Committee is also convened whenever the business encounters heightened market risk conditions.

(a) Interest Rate Risk Management

The Company and the Group are exposed to interest rate risk as entities in the Group borrow / lend funds at both fixed and floating interest rates.

The Company and the Group identifies the following types of interest rate risk:

- Re-pricing Risk - This risk results from differences between the timing of interest rate fixings for assets and liabilities.
- Yield Curve Risk - This risk arises from changes in the shape and slope of the yield curve.
- Other Risks – Other risks that do not apply to the Group but that may become relevant in the future include Basis Risk (arising from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics; Optionality Risk (arising from the options embedded in bank assets, liabilities and off- balance sheet portfolios); and Reinvestment Risk (arising from changing interest rates generating increasing interest costs but not increasing interest revenues).

The interest rate risks that have been identified can have an impact on both the earnings and economic value of the Group and as a consequence the Board of Directors seeks to manage these risks to ensure the achievement of its business objectives.

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Year ended 31 December 2013

32. MARKET RISK (CONTINUED)

(a) Interest Rate Risk Management (continued)

The ALCO manages interest rate risk by the establishment of a Market Risk Policy that reflects the overall risk appetite. The overall risk appetite is approved by the Board of Directors and reviewed regularly.

The ALCO manages interest rate risk through the use of:

- List of permitted products
- Interest Rate Risk Limits: a maximum Basis Point Value amount (segmented into sub-limits by major currency and time bucket).
- A suite of stress tests that models changes to yield curves both in absolute terms and in terms of changes to the shapes of the curves.

The day-to-day management of interest rate risk lies with the Treasury team. The monitoring and reporting of interest rate risk on a daily basis is performed by an independent Treasury Valuation Control function that reports to the Head of Finance. The system of controls over interest rate risk is subject to oversight by the Market and Liquidity Risk Control team which reports to the Chief Risk Officer.

The following tables provide a summary of the interest rate re-pricing profile of the Group's assets and liabilities. Assets and liabilities have been allocated to time bands by reference to the earlier of the next interest rate reset date and the contractual maturity date. Financial assets and liabilities with a floating rate are exposed to cash flow interest rate risk, and this risk is reflected predominantly in the time bands below twelve months. Financial assets and liabilities with a fixed rate are exposed to fair value interest rate risk, which is reflected predominantly in the time bands beyond twelve months. Financial assets and liabilities not directly exposed to interest rate risk will appear in the non-interest bearing time band. The table does not take account of derivative financial instruments whose effect is to alter the interest basis of the Group's assets and liabilities.

Group - 31 December 2013	Within 1mth €'000	1mth to 3mths €'000	3mths to 6mths €'000	6mths to 12mths €'000	1 to 3 years €'000	After 3 years €'000	Not tied to maturity €'000	Total €'000
Assets								
Cash and balances at central banks	310,000	-	-	-	-	-	10,832	320,832
Due from banks	521,787	42,340	1,534	5,477	-	-	92,051	663,189
Fair value through profit or loss								
- Held for trading	54,943	63,635	33,580	-	253,471	51,133	-	456,762
- Designated	-	-	-	-	-	-	-	-
Loans and advances to customers	512,535	608,228	358,295	35,138	-	-	-	1,514,196
Financial investments								
- Available for sale	39,974	95,893	-	11,270	147,836	87,067	-	382,040
- Held to maturity	8,954	63,308	-	-	7,033	-	-	79,295
Derivatives	7,292	2,617	546	31	-	-	-	10,486
Other assets	-	-	-	-	-	-	53,215	53,215
Total assets	1,455,485	876,021	393,955	51,916	408,340	138,200	156,098	3,480,015
Liabilities and equity								
Due to banks	388,139	176,626	71,057	135,004	-	-	228,709	999,535
Customer accounts	271,902	543,239	338,687	401,989	-	-	393,758	1,949,575
Derivatives	11,743	7,888	1,971	726	-	-	-	22,328
Other liabilities	-	-	-	-	-	-	23,427	23,427
Subordinated liabilities	-	-	-	-	-	-	182,877	182,877
Shareholders' equity	-	-	-	-	-	-	302,273	302,273
Total liabilities and equity	671,784	727,753	411,715	537,719	-	-	1,131,044	3,480,015
Interest rate sensitivity gap	783,701	148,268	(17,760)	(485,803)	408,340	138,200	(974,946)	

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

32. MARKET RISK (CONTINUED)

(a) Interest Rate Risk Management (continued)

Group - 31 December 2012 (Restated)	Within 1mth €'000	1mth to 3mths €'000	3mths to 6mths €'000	6mths to 12mths €'000	1 to 3 years €'000	After 3 years €'000	Not tied to maturity €'000	Total €'000
Assets								
Cash and balances at central banks	1,475,000	-	-	-	-	-	33,954	1,508,954
Due from banks	445,927	39,094	2,279	5,372	-	-	53,645	546,317
Fair value through profit or loss								
- Held for trading	51,370	95,676	67,071	50,185	-	-	193	264,495
- Designated	-	-	-	-	-	-	-	-
Loans and advances to customers	552,368	655,834	385,555	1,440	-	-	29,800	1,624,997
Financial investments								
- Available for sale	101,472	85,189	-	410	-	-	-	187,071
- Held to maturity	11,506	67,608	7,215	-	-	-	-	86,329
Derivatives	5,918	4,037	704	-	-	6,233	-	16,892
Other assets	-	-	-	499	-	-	53,614	54,113
Total assets	2,643,561	947,438	462,824	57,906	-	6,233	171,206	4,289,168
Liabilities and equity								
Due to banks	465,669	289,734	78,741	136,772	-	-	859,377	1,830,293
Customer accounts	753,864	375,575	248,576	171,259	12,263	-	347,496	1,909,033
Derivatives	11,090	7,077	9,097	920	-	-	-	28,184
Other liabilities	1,354	2,432	1,978	884	158	-	23,142	29,948
Subordinated liabilities	-	190,970	-	-	-	-	-	190,970
Shareholders' equity	-	-	-	-	-	-	300,740	300,740
Total liabilities and equity	1,231,977	865,788	338,392	309,835	12,421	-	1,530,755	4,289,168
Interest rate sensitivity gap	1,411,584	81,650	124,432	(251,929)	(12,421)	6,233	(1,359,549)	

(b) Foreign Currency Risk Management

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

The Group identifies foreign exchange rate risk as the risk to future cash-flows from adverse foreign exchange movements.

Foreign exchange rate risk can have an impact on both the earnings and economic value of the Group and as a consequence the Board of Directors seeks to manage these risks to ensure the achievement of its business objectives.

The ALCO manages foreign exchange rate risk by the establishment of a Market Risk Policy that reflects the overall risk appetite and which is approved by the Board of Directors and reviewed regularly.

The ALCO manages foreign exchange risk through the use of:

- List of permitted trading currencies;
- Foreign exchange trading limits - maximum daylight and overnight limits are set for both spot and forward foreign exchange trades;
- Foreign exchange stop loss limits - maximum limits are set per book for the time horizons of day, month and year; and
- A suite of stress tests that models changes to foreign exchange rates.

Management information systems are in place to measure foreign exchange risk, which is measured as the estimate of the exposures/liabilities accepted in non-Euro currencies which are not offset by a corresponding position or derivative transaction. The day-to-day management of foreign exchange risk lies with the Treasury team. The monitoring and reporting of foreign exchange risk on a daily basis is performed by an independent Treasury Valuation Control function that reports to the Head of Finance. The system of controls over foreign exchange risk is subject to oversight by the Market and Liquidity Risk Control team which reports to the Chief Risk Officer. Senior management receive market risk reports, including foreign exchange, and are notified immediately of any breaches of the foreign exchange limits.

Utilisation of foreign exchange limits is measured as the sum of the absolute Euro equivalent values of all non-Euro currency positions. Throughout the period the utilisation has not exceeded the limit.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

32. MARKET RISK (CONTINUED)

(b) Foreign Currency Risk Management (continued)

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

Currency	2013 CCY'000	2013 €'000	2012 CCY'000	2012 €'000
UAE Dirham	(50)	(10)	60	12
Australian Dollar	(26)	(17)	(32)	(25)
Bahraini Dinar	4	8	-	1
Canadian Dollar	(5)	(3)	1	1
Swiss Franc	13	10	18	15
Danish Kroner	(227)	(30)	(47)	(6)
Algerian Dinars	164	2	164	2
Egyptian Pounds	9	1	9	1
Euro	3,413	3,413	(9,312)	(9,312)
Sterling	4	5	9,639	11,820
Indian Rupee	347	4	341	5
Jordanian Dinar	6	6	9	9
Japanese Yen	(1,192)	(8)	1,319	12
Kuwaiti Dinar	5	13	(5)	(14)
Moroccan Dirham	1	-	(2)	-
Norwegian Kroner	375	45	103	14
New Zealand Dollars	1	1	(1)	-
Omani Rial	45	85	(24)	48
Qatari Riyals	29	6	6	1
Saudi Riyals	34	7	50	10
Swedish Kroner	(60)	(7)	(16)	(2)
Tunisian Dinar	2	1	19	9
US Dollar	19	8	(123)	(94)
Gold	(198)	(144)	-	1
Yemen Riyals	15	-	15	-
Total utilisation of limit (excluding EUR balance)	-	(17)	-	**11,820**

(c) Sensitivity Anaylsis

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

32. MARKET RISK (CONTINUED)

	2013 Impact on Profit/(loss) €'000	2012 Impact on Profit/(loss) €'000
Interest rate sensitivity		
100bps increase in interest rate	2,266	3,343
100bps decrease in interest rate	(565)	(1,953)
25bps stepped increase to 100bps over 2 months	2,282	3,362
25bps stepped decrease to 100bps over 2 months	(565)	(1,953)

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

Foreign currency risk sensitivity

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

	2013 €'000	2012 €'000
EUR appreciates 10%	(379)	(1,847)
EUR appreciates 20%	(757)	(3,694)
EUR depreciates 10%	379	1,847
EUR depreciates 20%	757	3,694

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

33. LIQUIDITY RISK

The ultimate responsibility for liquidity risk management and for setting the Group's Liquidity Risk Appetite rests with the Board of Directors, with the ALCO having responsibility to build an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements on a day-to-day basis. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring actual, forecast and stressed cash flows and matching the maturity profiles of financial assets and liabilities.

The measurement, management and monitoring of Liquidity Risk in EAB incorporates liquidity policies, systems and controls that the Group have implemented to manage Liquidity Risk within tolerance levels approved by the Board of Directors. These incorporate a range of tools to calculate key liquidity metrics, measure and monitor these against risk appetite limits and stress test the Group's cash flows including its contingent liabilities.

The Group follows a conservative approach to liquidity risk, and maintains a Liquid Asset Buffer as required by the UK Prudential Regulation Authority ("PRA") in addition to a portfolio of marketable securities rated generally BBB and above, which is held as a liquidity buffer if short-term funds are urgently needed.

The Group 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 the Group's liquid assets are insufficient to meet its short-term commitments.

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

- Contingency liquidity risk
  The risk that the Group experiences unexpected and/or acute liquidity shocks.

In order to achieve the above, the Group has identified several risk factors which form components of the Group's overall liquidity risk profile. These include but are not limited to:

- Wholesale secured and unsecured funding risk
- Retail funding risk
- Intra-day liquidity risk
- Intra-group liquidity risk
- Cross-currency liquidity risk
- Off-balance sheet liquidity risk
- Franchise viability risk
- Marketable assets risk
- Non-marketable assets risk
- Funding concentration risk
- EAB specific funding concentration risk

Tactical Liquidity management is performed by Treasury under delegated authority from ALCO. Structural liquidity management is carried out by ALCO, within the parameters set out in the Group's Liquidity Risk Policy.

The Treasury team is responsible for intra-day and end-of-day liquidity. Liquidity risk is measured at an overall Group level through regular reporting produced by the Regulatory Reporting team within Finance. Additional reporting is provided in the form of monthly liquidity reports submitted to the PRA. Regulatory liquidity requirements are calculated and monitored internally on a daily basis and are complemented by other internal liquidity limits set by the Group. The system of controls over liquidity risk is subject to oversight by the Market and Liquidity Risk Control team which reports to the Chief Risk Officer.

The ALCO is responsible for monitoring and reviewing liquidity positions and ensuring these positions are within the limits set.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

33. LIQUIDITY RISK (CONTINUED)

The following tables analyse assets and liabilities into relevant maturity groupings based on the remaining period to contractual maturity. The maturity profiles disclosed below do not include the impact of behavioral characteristics observed by the Group. This has a material impact on the maturity profile and forms a key part of our liquidity management and stress testing. In addition, the Group also maintains a portfolio of marketable trading securities that can be liquidated in the event of unforeseen interruption of cash flow. The Group also benefits from the support of parent company, Arab Bank plc.

Group - 2013	Within 1mth €'000	1mth to 3mths €'000	3mths to 6mths €'000	6mths to 12mths €'000	1 to 3 years €'000	After 3 years €'000	Not tied to maturity €'000	Total €'000
Assets								
Cash and balances at central banks	310,000	-	-	-	-	-	10,832	320,832
Due from banks	521,787	42,340	1,534	5,477	-	-	92,051	663,189
Fair value through profit or loss								
- Held for trading	-	-	33,580	-	372,046	51,136	-	456,762
- Designated	-	-	-	-	-	-	-	-
Loans and advances to customers	105,315	99,943	85,253	105,865	270,779	847,041	-	1,514,196
Financial investments								
- Available for sale	-	2,182	18,200	33,314	234,013	94,331	-	382,040
- Held to maturity	-	14,983	31,997	3,525	7,033	21,757	-	79,295
Derivatives	1,812	6	139	57	698	7,774	-	10,486
Other assets	-	-	-	-	-	-	53,215	53,215
Total assets	938,914	159,454	170,703	148,238	884,569	1,022,039	156,098	3,480,015
Liabilities and equity								
Due to banks	297,349	133,047	205,426	135,004	-	-	228,709	999,535
Customer accounts	269,723	543,239	338,687	404,168	-	-	393,758	1,949,575
Derivatives	2,414	713	1,768	329	10,192	6,912	-	22,328
Other liabilities	-	-	-	-	-	-	23,427	23,427
Subordinated liabilities	-	-	-	-	-	-	182,877	182,877
Shareholders' equity	-	-	-	-	-	-	302,273	302,273
Total liabilities and equity	569,486	676,999	545,881	539,501	10,192	6,912	1,131,044	3,480,015

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

33. LIQUIDITY RISK (CONTINUED)

Group - 2012 (Restated)	Within 1mth €'000	1mth to 3mths €'000	3mths to 6mths €'000	6mths to 12mths €'000	1 to 3 years €'000	After 3 years €'000	Not tied to maturity €'000	Total €'000
Assets								
Cash and balances at central banks	1,475,000	-	-	-	-	-	33,954	1,508,954
Due from banks	445,867	32,274	2,087	12,002	433	71	53,583	546,317
Fair value through profit or loss								
- Held for trading	18,968	1,310	25,336	-	118,509	100,372	-	264,495
- Designated	-	-	-	-	-	-	-	-
Loans and advances to customers	134,612	108,725	71,462	16,460	306,752	986,986	-	1,624,997
Financial investments								
- Available for sale	76,485	28,812	5,016	24,987	51,771	-	-	187,071
- Held to maturity	-	-	-	-	57,655	28,674	-	86,329
Derivatives	2,716	214	38	1,764	429	11,731	-	16,892
Other assets	-	-	-	-	-	499	53,614	54,113
Total assets	2,153,648	171,335	103,939	55,213	535,549	1,128,333	141,151	4,289,168
Liabilities and equity								
Due to banks	370,860	244,226	219,058	136,772	-	-	859,377	1,830,293
Customer accounts	155,981	375,575	248,576	174,558	12,263	-	942,080	1,909,033
Derivatives	1,486	191	849	1,813	7,115	16,730	-	28,184
Other liabilities	926	2,645	2,226	1,191	656	488	21,816	29,948
Subordinated liabilities	-	-	-	-	-	-	190,970	190,970
Shareholders' equity	-	-	-	-	-	-	300,740	300,740
Total liabilities and equity	529,253	622,637	470,709	314,334	20,034	17,218	2,314,983	4,289,168

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

33. LIQUIDITY RISK (CONTINUED)

Liquidity risk - financial liabilities

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities except where the Group is entitled and intends to repay the liability before its maturity.

Gross Contractual Cash flows	Within 1mth €'000	1mth to 3mths €'000	3mths to 6mths €'000	6mths to 12mths €'000	1 to 3 years €'000	After 3 years €'000	Not tied to maturity €'000	Total €'000
2013								
Deposits by banks	297,349	133,078	205,429	135,010	-	-	228,699	999,565
Customer deposits	269,796	543,743	339,561	407,172	-	-	393,758	1,954,030
Subordinated liabilities	-	-	-	-	-	-	182,880	182,880
Total non-derivative financial liabilities	567,145	676,821	544,990	542,182	-	-	805,337	3,136,475
2012								
Deposits by banks	204,877	95,455	211,478	136,168	-	-	1,182,371	1,830,349
Customer deposits	1,098,849	376,221	249,580	176,147	12,835	-	-	1,913,632
Subordinated liabilities	-	-	-	-	-	-	190,974	190,974
Total non-derivative financial liabilities	1,303,726	471,676	461,058	312,315	12,835	-	1,373,345	3,934,955

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

	Within 3 mths €'000	3 to 12mths €'000	1 to 3 years €'000	After 3 years €'000
2013				
Letters of credit and acceptances	108,016	47,367	358	64
Financial guarantees	434,902	378,121	526,310	338,817
Un-drawn commitments	-	-	93,180	-

	Within 3 mths €'000	3 to 12mths €'000	1 to 3 years €'000	After 3 years €'000
2012				
Letters of credit and acceptances	167,189	209,889	25,641	64
Financial guarantees	428,236	592,726	526,949	264,533
Un-drawn commitments	-	-	203,307	-

The following table details the Group's expected maturity for its derivative financial instruments. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

The table below presents the contractual maturity date of derivative financial instruments that will be settled on a net basis.

Gross Contractual Cash flows	Within 3 mths €'000	3 to 12mths €'000	1 to 3 years €'000	After 3 years €'000
2013				
Interest rate swaps	364	145,038	324,720	277,186
Interest rate futures	15,422	44,813	65,345	-
2012				
Interest rate swaps	94,808	165,695	207,714	235,641
Interest rate futures	20,000	10,000	-	-

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

33. LIQUIDITY RISK (CONTINUED)

The table below presents the contractual maturity date of derivative financial instruments that will be settled on a gross basis (i.e. forward currency contracts).

Gross Contractual Cash flows	Within 3 mths €'000	3 to 12mths €'000	1 to 3 years €'000	After 3 years €'000
2013				
Outflow	673,389	16,025	-	-
Inflow	674,791	16,346	-	-
2012				
Outflow	1,106,255	18,248	-	-
Inflow	1,104,899	18,405	-	-

Encumbered assets

Certain assets are pledged as collateral to secure liabilities under repurchase agreements, Credit Support Annex ("CSA") for derivative liabilities and as security deposits relating to futures, options and exchange memberships. The holders of these securities do not have the right to sell or re-pledge the asset except where specifically disclosed.

The aggregate amount of collateral pledged under CSAs is €13.6m (2012: €17.2m).

The Group has pledged €61m (2012:€160m) worth of investment securities and cash as collateral against its clearing operations.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

34. OPERATIONAL RISK

The Group actively manages operational risk in accordance with regulation and guidance from the UK Financial Conduct Authority ("FCA") and Prudential Regulation Authority ("PRA"), as well as guidelines stipulated by other regulatory bodies.

The objective is to maintain high standards of operational risk management and the Bank has consequently adopted key tools such as Risk and Control Self Assessment, operational risk issue and event reporting 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, 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.

35. CAPITAL MANAGEMENT AND RISK

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

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

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

Europe Arab Bank's capital comprises net equity of €302m (2012:€301m) and perpetual subordinated liabilities of €183m (2012: €191m). The subordinated liabilities count as upper tier 2 capital for the regulatory capital base. The regulatory capital base differs slightly from amounts reported above due to differing treatment of certain reserves.

36. GROUP AND COMPANY EVENTS AFTER THE BALANCE SHEET DATE

There have been no reportable events after the balance sheet date.

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