

Arab Bank Australia

**COMBINED FINANCIAL SERVICES GUIDE
AND PRODUCT DISCLOSURE STATEMENT
FORWARD EXCHANGE CONTRACTS**

Dated June 2010

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General

This Combined Financial Services Guide and Product Disclosure Statement ("**Combined FSG and PDS**") is set out in two parts:

- **Part A** contains the **Financial Services Guide** of Arab Bank Australia Limited; and
- **Part B** contains the **Forward Exchange Contracts Product Disclosure Statement** of Arab Bank Australia Limited.

Information relevant to both Parts may be included expressly in one Part and incorporated by reference in the other Part.

The Product Disclosure Statement contained in Part B is limited to forward exchange contracts. If you wish to obtain information about any other products offered by Arab Bank Australia Limited you should contact us and request the Product Disclosure Statement relevant for that Product. Our contact details are set out at item A10 below.

PART A FINANCIAL SERVICES GUIDE

A1 Introduction

A1.1 References to the “Bank”

A reference in either Part A or Part B of this Combined FSG and PDS to the “Bank” or “us” or “we” or “ours” is a reference to Arab Bank Australia Limited ABN 37 002 950 745. Our contact details are set out under item A10 below.

A1.2 About this Financial Services Guide

This Financial Services Guide is designed to assist you in deciding whether to use a financial product or service offered by us. The information in this guide is provided to help you understand what to expect from your dealings with us.

This Financial Services Guide sets out the range of financial services and types of financial products that we are authorised to provide under our Australian Financial Services Licence, Licence No: 234563.

This Financial Services Guide includes information about:

- the services and products we offer;
- remuneration that we and/or our staff and any associates receive in connection with any of the financial products or services we offer; and
- our complaints handling procedures.

Before we provide you with financial product advice or certain financial products we are generally required by law to provide you with an up to date Financial Services Guide.

A1.3 Other disclosure

In addition to this Financial Services Guide, when we offer or issue any financial product to you we will generally provide you with a Product Disclosure Statement in relation to that financial product. In order to assist you to make an informed decision about a product we offer, the Product Disclosure Statement will include terms and conditions on which the product is provided, significant risks and costs associated with the product and fees and charges.

We do not give you financial advice or financial product advice in relation to forward exchange contracts that has regard to your objectives, your financial situation and needs. You must therefore, consider these matters before making any decision in relation to any advice we give or any forward exchange contract we offer. You should also obtain the PDS in relation to any financial product we offer and consider it carefully before making any decision to acquire the product.

The PDS for forward exchange contracts offered by the Bank is contained in Part B of this Combined FSG and PDS.

A2 Financial products and services we are licensed to provide

We hold an Australian Financial Services Licence which authorises us to provide certain financial advice and services and deal in certain financial products as follows:

- (a) to provide financial product **advice** in relation to:
 - deposit and payment products including:
 - basic deposit products;
 - deposit products other than basic deposit products;
 - non-cash payment facilities;
 - derivatives; and
 - foreign exchange contracts;
- (b) to **deal** in:
 - deposit and payment products including:
 - basic deposit products;
 - deposit products other than basic deposit products; and
 - non-cash payment products;
 - derivatives; and
 - foreign exchange contracts.

The PDS in Part B below does not deal with all our financial products, only forward exchange contracts (which are derivatives).

A3 Arab Bank Australia Limited products

Arab Bank Australia Limited currently provides on its own behalf all the products and services it is licensed to provide.

A4 Benefits that Arab Bank Australia Limited may receive

We may charge fees for the products and services we provide to you. Details of any fees and charges will be set out in the relevant PDS for those products or services. Fees and charges in relation to forward exchange contracts are set out in item B9 of Part B of this Combined FSG and PDS.

If Arab Bank Australia Limited receives a commission or other benefit attributable to its provision of a licensed service, it will be disclosed in the relevant PDS.

A5 Remuneration or other benefits received by Arab Bank Australia Limited staff

All Arab Bank Australia Limited staff are salaried employees and do not receive a proportion of fees received by the Bank in connection with the financial services and products offered by the Bank. Staff of the Bank, however, may be eligible for annual bonuses for exceeding specific product sales targets for Bank products.

A6 Referral fees

We do not pay commissions or provide other benefits to any person for referring customers to us in connection with the financial services and products that we are licensed to provide.

A7 Making a complaint

If you believe an error has been made, or if you have a concern or complaint about a service, please notify us by contacting any of our branches or calling 1800 646 484 between 9:00am – 5:00pm AEST Monday to Friday and we will attempt to resolve the issue. Alternatively, if you are using our Internet Banking, you can contact us via Secure Mail.

To assist in obtaining a quick resolution, you must be clear and provide accurate information in regards to your concerns or enquiry. If your problem is not or cannot be resolved to your satisfaction, you may make a complaint by either completing our complaint form detailing the problem, or if you do not wish to complete our form, we will take down details of your complaint. You are responsible for the disclosure of all relevant information available to you regarding the issue.

For more information about our process for dealing with complaints, including the time frame within which complaints are normally dealt with, please refer to our website at www.arabbank.com.au

If you are not satisfied with the outcome, you may contact a dispute resolution scheme, the Financial Ombudsman Services at:

<p>Financial Ombudsman Services GPO Box 3 Melbourne VIC 3001 Telephone: 1300 780 808 Fax: 03 9613 6399 Email: info@fos.org.au Internet: www.fos.org.au</p>

A8 Anti-money laundering, anti-terrorism

You agree that we may delay, block or refuse to process any transaction, if we have reasonable grounds to believe that the transaction may breach any laws in Australia or any other country or may involve the proceeds of, or be applied for

the purposes of, unlawful conduct. You further agree that we will incur no liability to you or any other party involved in the transaction if such actions are taken.

You agree to provide all information to us which we reasonably require in order to meet our legal and regulatory obligations. You also agree that we may disclose any information concerning you, where required to by any laws in Australia or any other country.

Unless you have disclosed that you are acting in a trustee capacity or on behalf of another party, you warrant that you are acting on your own behalf in entering this agreement. You must not initiate, conduct or effect a transaction that may be in breach of any law in Australia or any other country. You will be liable for and must indemnify us against any loss or costs arising from any such transaction or attempted transaction.

A9 Instructing us

You can contact Arab Bank Australia Limited using the contact details set out under item A10 in this guide or at any of our branch offices.

Generally we require you to instruct us in writing. Some of our products and services require you to give us instructions in a specific manner. Please refer to the relevant Product Disclosure Statement for these details.

A10 Further information

For further information about any of the matters contained in this document or information on any of our products or services please refer to our Product Disclosure Statement for the relevant service or contact us using the details set out in item A10 of this guide.

A11 Contact details

Arab Bank Australia Limited

ABN 37 002 950 745

Level 9

200 George Street

Sydney NSW 2000

Telephone: 02 9377 8900

Facsimile: 02 9221 5428

Internet Address: www.arabbank.com.au

Free call: 1800 646 484

For branch locations and contact details please refer to our internet site or contact us using the details set out above.

PART B FORWARD EXCHANGE CONTRACTS PRODUCT DISCLOSURE STATEMENT

B1 Introduction

B1.1 Product Disclosure Statement dated 15 April 2010

This Product Disclosure Statement (“PDS”) is an important document. It is to provide you with information to help you understand the risks, benefits and costs of our forward exchange contracts.

If there is anything in this PDS that you do not understand, please contact your Bank Relationship Manager.

B1.2 Not a recommendation

This PDS is not a recommendation or opinion that any particular foreign exchange product is appropriate for you. As noted in item A1.3 in Part A above, the Bank does not give advice that has regard to your individual objectives, your financial situation and needs. Before entering into a forward exchange contract you should give consideration to your individual objectives, financial situation and needs.

B2 What is a forward exchange contract?

B2.1 Nature of contract

The subject matter of a forward exchange contract is currency. A forward exchange contract is an agreement between the Bank and the customer where one party agrees to sell and the other to buy an amount of one currency using another currency at a specified exchange rate on a future date. The exchange rate is fixed at the date of the contract though delivery is in the future.

B2.2 Exchange rate

An exchange rate, or foreign exchange rate, is the price at which one currency can be bought with or sold for another currency. The exchange rate you will be quoted will be made up of two currencies: the “base” currency and the “terms” currency. The quotation will be in terms of how many units of the terms currency will equal 1 unit of the base currency.

Example: Australian dollar (AUD) against United States dollar (USD)

AUD/USD 0.6910

Here, AUD is the base currency and USD is the terms currency. One AUD is equal to 0.6910 USD (69.10 US cents).

B3 What is the purpose of forward exchange contracts?

B3.1 Certainty for a future date

Forward exchange contracts are used particularly by persons engaged in overseas trade or investment who will pay or receive an amount of foreign currency in the future. Using a forward exchange contract a market participant can set exchange rates for a future date such as the date a foreign currency payment is due on goods to be imported. Thus, importers, exporters and investors commonly use forward exchange contracts to protect against adverse movements in the exchange rate, although these contracts cannot provide a perfect “hedge” should the actual cost of goods vary.

B3.2 Term

The Bank provides forward exchange contracts that can be:

- for a fixed term, such as months; or
- for a fixed delivery date.

No term may exceed six months from the establishment date of the contract.

B4 Delivery

At the end of the term or on the delivery date the Bank and the customer must perform the contract by delivery and acceptance.

B5 How are forward exchange contracts priced?

B5.1 Rate not a forecast

The foreign exchange rates that the Bank quotes for the future are not a forecast of where the Bank believes the foreign exchange rate will be on any future date.

B5.2 Bank rate

The Bank calculates the exchange rate for the purpose of your contract by taking the current “spot” foreign exchange rate and adjusting it by a “forward margin”.

B5.3 Spot rate

The spot foreign exchange rate is the term given to the foreign exchange rate when the delivery date is two clear business days after the date the rate is quoted.

B5.4 Forward margin

The forward margin reflects interest rate differentials between the two currencies. It is expressed as a number of foreign exchange points, and is either added to or subtracted from the current spot exchange rate to determine the forward exchange rate. This depends on which currency has the higher or lower interest rate.

B5.5 Example:

Current spot exchange rate	AUD/USD 0.6910
Three month forward margin	0.0060
Forward exchange rate	0.6850

In this case, the forward exchange rate for AUD/USD reflects the fact that interest rates are currently higher in Australia than the United States of America.

B6 Can I extend a forward exchange contract?

B6.1 Discretion

After taking out a forward exchange contract, you may wish to delay the settlement of the contract. We are not bound to agree to extend the term of your contract. We may agree to do so, but usually only for trade related transactions. Any extension is also subject to our credit policies.

B6.2 Adjusted exchange rate

If we agree to extend a contract, an adjusted rate of exchange for the transaction, based on the interest rate differentials between the two currencies, calculated for the requested delivery date, will be applied. The exact impact on your contract of the extension will depend on a number of factors affecting the relevant interest rates and our costs, including the size of your transaction, the period of the extension and the market for the currencies.

B6.3 Example

A request is made to extend a USD contract established for one month, using the information supplied in example B5.5.

Contracted forward exchange rate	AUD/USD 0.6850
One month forward margin	0.0025
New forward exchange rate	0.6825

In this case, the contracted forward exchange rate of 0.6850 was extended for a further one month at the new exchange rate 0.6825 (0.6850 – 0.0025).

B7 Can I bring forward delivery under a forward exchange contract?

B7.1 Discretion

After taking out a forward exchange contract, you may wish to bring forward the date on which you settle the contract. This is called pre-delivery of the contract. We are not bound to, but we may agree to pre-delivery of your contract.

B7.2 Adjusted exchange rate

If we agree to pre-deliver a contract, an adjusted rate of exchange based on the interest rate differentials between the two currencies calculated for the requested delivery date, will be applied. The exact impact on your contract of

pre-delivery will depend on a number of factors affecting relevant interest rates and our costs, including the size of your transaction, the revised length of the contract and the market for the currencies.

B7.3 Example

A request is made to pre-deliver by one month under a USD contract that was originally established for three months, using the information supplied in example B5.5.

Contracted forward exchange rate	AUD/USD 0.6850
Adjusted forward margin for delivery after two months	0.0015
Adjusted forward exchange rate	0.6865

In this case, the contracted forward exchange rate of 0.6850 was adjusted to the pre-delivery date by one month at the new exchange rate of 0.6865 (0.6850 + 0.0015).

B8 Can I cancel a forward exchange contract?

B8.1 Cancellation

You can cancel a forward exchange contract at any time.

B8.2 Timing of cancellation

The cancellation can take place either on the delivery date or at any time before the delivery date.

B8.3 Consequence

A cancellation will take into account the existing contract to be cancelled and the mark to-market value of the contract. The mark to market value of the contract will be the positive or negative difference between the value of the contract and the prevailing market value of such a contract.

B8.4 Settlement

On cancellation of a contract, the net positive or negative cash flow of the base currency will be settled between you and the Bank.

B8.5 Example

A request is made to cancel a USD \$100,000 Bank selling contract (AUD is the base currency and USD is the terms currency) on the settlement date, using the information supplied in example B5.5.

Contracted forward exchange rate	AUD/USD 0.6850
Current spot rate	0.7000

In this case, a net negative cash flow of the base currency settled with the Bank results i.e. the customer would pay the Bank A\$3,128.26 (US\$100,000 / 0.6850 – US\$100,000 / 0.7000) in order to cancel the contract.

B9 Fees, costs and charges

B9.1 Purchase of currency

When you enter into a foreign exchange contract with us, you agree to pay one currency to us in exchange for another currency at a fixed rate on an agreed delivery date. What you pay is determined by the exchange rate we agree with you.

B9.2 Fees

Fees may be payable for the establishment, extension, pre-delivery, cancellation or settlement of a foreign exchange contract. If fees are applicable they will be contained in a separate document which forms part of this PDS. The document will be provided to you with this PDS.

B9.3 Other costs

You may also need to pay some extra costs at settlement depending on the method by which settlement is effected, for example, by Telegraphic Transfer (TT) or International Draft. These costs are in addition to any costs described above. Information about the costs of TTs and International Drafts is contained in the Product Disclosure Statement or other document relating to these products. Additional fees are payable for couriers, postage and/or other actions relating to forward exchange contract transactions.

In addition, where you provide the Bank with a form of security other than cash, for example a real property mortgage or company charge, the Bank will require you to pay any solicitor's fees, mortgage duty and/or registration fees (if applicable) that are incurred by the Bank in taking that security. In relation to the Bank's requirements for security for forward exchange contracts please refer to item B10.5 below.

B10 Other terms of forward exchange contracts

B10.1 Other terms

Customers who want to enter into forward exchange transactions with the Bank must enter into our Conditions of Contract for Forward Exchange Transactions

("Conditions"). This brief document describes the rights and obligations of both parties in relation to the forward exchange contract. It is signed only once, and then covers all future forward exchange contracts between us.

B10.2 Default

The Conditions provide that if you fail to complete the contract or pay monies required (except as agreed with us) the Bank may sell currency to terminate the contract and charge you for the Bank's costs, expenses or losses as a result of the contract and its termination.

B10.3 Confirmation

Each time you enter into a forward exchange transaction with us, we will provide you with a confirmation note setting out the details of the transaction. If you do not immediately notify us of any discrepancy, this confirmation is taken as correct.

B10.4 Instructions

The Bank will not be responsible for loss you may suffer from:

- its acting on instructions (written or otherwise) purportedly given by your authorised officer (if you are a corporate customer);
- an error in any instructions given by you; or
- delays of any kind in transmission.

B10.5 Security

Before you enter into a forward exchange contract with us we will require you to provide us with security (such as cash or other property) equal to 10% of the forward exchange contract facility limit.

Where we require security from you we will ask you to enter into an additional agreement which will specify the security we are taking and when we can exercise our rights over that security.

Where you have existing facilities with us and have already provided some form of security in relation to those facilities we may choose to rely upon those existing securities to secure your obligations under any forward exchange contract you enter into with us.

If you fail to pay any moneys owing to the Bank in relation to a forward exchange contract by the relevant due date we may choose to recover monies we are owed by exercising our rights under the security you have provided.

B11 Risks

B11.1 Risks

There are two principal foreign exchange risks associated with forward exchange contracts as set out in items B11.2 and B11.3 below.

B11.2 Opportunity costs

Entering into a forward exchange contract fixes the exchange rate for a future delivery date. This precludes any future financial benefit (sometimes known as “opportunity costs”) or any future financial cost from subsequent exchange rate movements.

B11.3 Failure of underlying commercial rationale

If the underlying reason for wishing to set the exchange rate for a future delivery date no longer exists (eg the underlying commercial contract is cancelled), the forward exchange contract may need to be cancelled at prevailing market rates. This may incur a profit or a loss (ie the ‘mark to market’ value of the contract). Currency markets are highly volatile and the prices of the underlying currencies can fluctuate rapidly and over wide ranges and may reflect unforeseen events or changes in conditions.

B12 Complaints

Our complaints handling procedure in relation to forward exchange contracts is as set out under item A7 in **Part A** of this Combined FSG and PDS.

B13 Tax Implications

B13.1 Outline

The foreign exchange rules may apply to you if you dispose of foreign currency or a right to receive foreign currency, you cease to have a right or obligation to receive foreign currency (for example, as a consequence of that right or obligation being satisfied by the payment to you of foreign currency) or you cease to have a right or obligation to pay foreign currency (for example as a consequence of that right or obligation being satisfied by the payment by you of foreign currency or because an option that you have to sell foreign currency expires without having been exercised or is cancelled, released or abandoned). The impact of the new rules is generally (subject to some exceptions):

- if you make a gain from a foreign exchange arrangement and part of that gain is attributable to a currency exchange rate fluctuation – that part of the gain is included in your assessable income as a foreign exchange realisation gain;
- if you make a loss from a foreign exchange arrangement and part of that loss is attributable to a currency exchange rate fluctuation – that part of the loss is allowable as a deduction against your assessable income as a tax realisation loss.

B13.2 Professional Adviser

You should consult your own independent professional adviser(s) regarding the tax and accounting consequence of acquiring, holding or disposing of forward exchange contracts in light of your particular circumstances.

B14 Further information

For further information about forward exchange contracts, please visit our website at www.arabbank.com.au (or contact your Arab Bank Australia Limited Treasury Department or International Trade representative). Our contact details are set out under item A10 in **Part A** of this Combined FSG and PDS.