

Chairman's Report

1999 was again a year of strong growth for Arab Bank Australia. We continued the success of previous years with record growth in operating profit, retail deposits and retail lending. The opening of our new branch at Coburg, Victoria in March marked an important step in the building of the bank.

The results achieved were commendable given the challenges faced in an intensely competitive environment, and the resources dedicated to the Year 2000 task and the opening of an interstate branch. I am pleased to report that the bank did not experience any difficulties with the millenium change as a result of its extensive testing and preparations.

FINANCIAL HIGHLIGHTS

PROFITS

Operating profit before general provisions and tax was \$ 4.154 million. This represents an increase of 21% for the year despite cost constraints imposed by the Year 2000 task and the establishment costs of the Coburg branch.

DEPOSITS

Retail customer deposits increased by 34% assisted by the very successful launch of our competitive cash management account. The release of the cash management account demonstrates the banks' commitment to providing excellence in selected products. This account strengthens our deposit product range and compliments our Term Deposit product that has been awarded the prestigious gold award by Personal Investor magazine for the last two years. The bank's product range was also recognised by a Silver Award for Foreign Currency Transactions and a Bronze Award for its Foreign Exchange Account.

The bank also had success in raising deposits from the wholesale market through its commercial paper programme.

LENDING


The retail lending portfolio continued the growth of previous years recording a 29% increase from \$302 million to \$390 million.

The bank's management of credit quality is demonstrated by the fact that it has no impaired assets or specific provisions. Despite its impressive record in the area of credit quality control, the board has a policy of maintaining a General Provision for Doubtful Debts higher than industry standards.

THE YEAR AHEAD

The bank plans to further build on its achievements in 1999 during the coming year. The bank has carried out an extensive survey of current and prospective customers in order to fulfil its vision of being a relationship bank providing superior service and excellence in selected products. The results of this survey and further consultation with our customers will be the platform for the development of new products and delivery channels such as phone and internet banking.

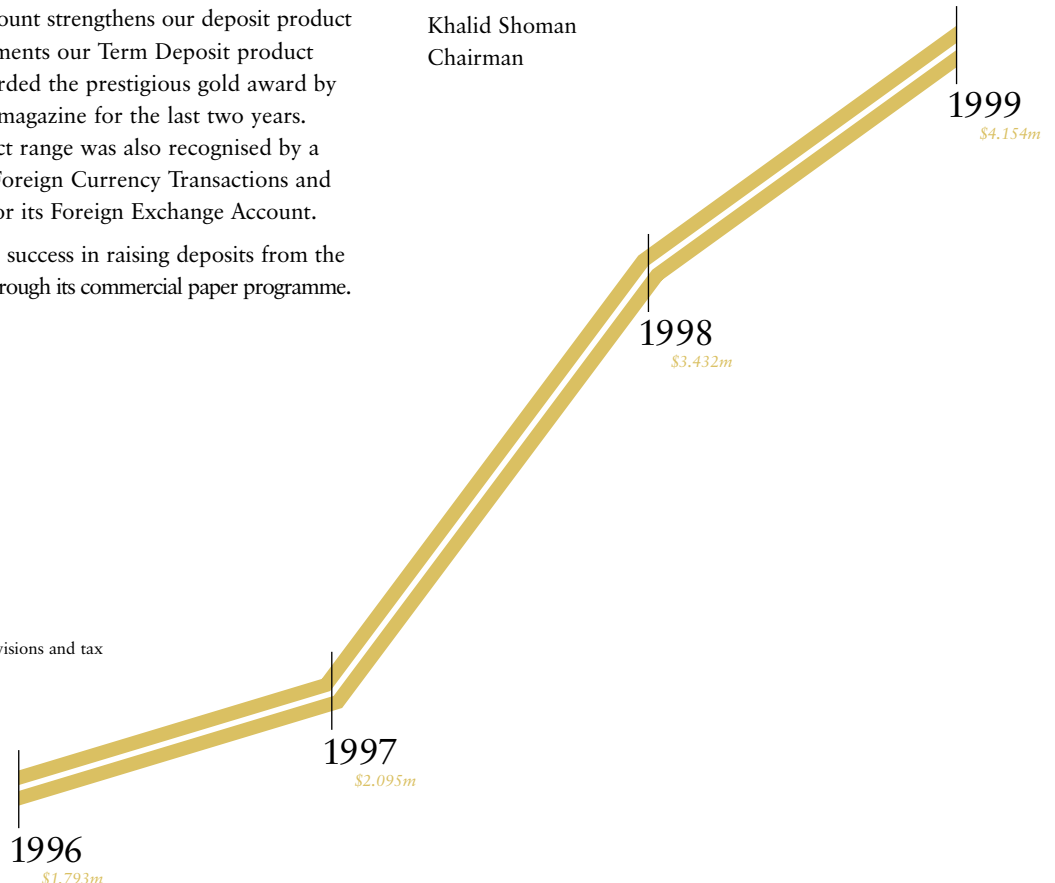
Finally, the board, management and staff should be proud of their achievements. I wish to thank them for their dedication and loyalty.



Khalid Shoman
Chairman

Operating Profit

before general provisions and tax



Corporate Governance Statement

This statement outlines the main Corporate Governance practices that were in place throughout the financial year.

ROLE OF THE BOARD OF DIRECTORS

The Board of Directors is responsible to the shareholders, employees and customers for the corporate governance of Arab Bank Australia Limited and its controlled entity. In accepting its responsibilities for formulating the strategic direction of the economic entity, members of the Board participate in strategic planning conferences, and entrust the Managing Director with the responsibility of maintaining and monitoring the economic entity's direction. Responsibility for the day to day operations of the economic entity is also delegated to the Managing Director and senior management. The Board is then responsible for establishing goals and approving annual budgets for management and monitoring management's performance in accordance with the predetermined objectives. Members of the Board often visit the operations of the economic entity and meet with its employees. The Board is also responsible for reporting back to the Shareholders of the economic entity.

Each member of the Board acknowledges their statutory obligations, as well as their fiduciary duty to act honestly and with reasonable care and diligence.

COMPOSITION OF THE BOARD OF DIRECTORS

The names of the directors of the economic entity in office at the date of this statement are detailed in the Directors' Report.

INDEPENDENT PROFESSIONAL ADVICE

To assist the directors in discharging their duties as directors, each director has the right to seek independent professional advice, and with the approval of the Chairman, at the expense of the economic entity. Such advice is to be made available to the entire Board.

COMMITTEES

The Board is supported by the Board Audit Committee, which has been established in order to assist the Board in exercising its responsibilities in assessing and maintaining the adequacy of the economic entity's control environment in the areas of financial reporting, operations and regulatory requirements.

As approved by the Board of Directors, the Committee's independence is clearly demonstrated, by requiring that the majority of its members must be non-executive directors. The members of the Committee at the date of this statement are:

Mr J P Grant (Chairman)
Mr J J Liu
Mr J Beighton

The primary functions of the Audit Committee are to:

1. Direct and review the operations of the internal audit function;
2. Review both internal and external reports for reported significant weaknesses and ensure action taken by management to address any deficiencies;
3. Review the terms of engagement, scope and quality of the external audit, as well as recommending to the Board on the appointment, continuance and removal of external auditors;
4. Review accounting policies and practices and making recommendations to the Board for enhancements;
5. Provide a line of communication between management and the Board of Directors on all significant financial, compliance, and operating issues.

Decisions of the Audit Committee are effectively recommendations to the Board, not resolutions in their own right.

INTERNAL CONTROL FRAMEWORK

The Board acknowledges that it is responsible for the overall internal control framework but recognises that no cost effective internal control system will preclude all errors and irregularities. The internal control system is based upon well documented, policies, procedures, manuals and guidelines. It is also based upon an organisational structure which provides an appropriate segregation of responsibility given the size of the Bank, an internal audit function which provides reasonable assurance to the Managing Director, and the careful selection and training of qualified personnel by Human Resources.

RISK IDENTIFICATION AND MANAGEMENT

Exposures that arise due to various risks, such as market (interest rate and foreign exchange rate), liquidity, credit and operational risks, are managed through the Bank's risk management approach. The Bank has in place risk management policies that address each of these risks. The internal audit function reviews the risk management policies on an annual basis the results of which the Managing Director and the entire Board are advised. The risk management approach also includes the approval by the Board of the establishment of a Credit Committee, Asset Liability Committee (ALCO), Product Development Committee and an Operational Risk Committee. All Committees are comprised of senior management and the Managing Director.

ETHICAL STANDARDS

In recognising the need for all Directors, managers and employees to act with the highest standards of ethics in the performance of their duties, the Board has adopted internal Codes of Ethics, both Corporate and Personal, which set out the values with which all Directors, managers and employees are expected to observe.

The Codes of Ethics embrace the principles of honesty, integrity, independence, objectivity, responsibility, fairness, and respect. To emphasise the importance of the ethical values, the Managing Director communicates the code of conduct to all personnel throughout the organisation.

ROLE OF SHAREHOLDERS

The shareholders of Arab Bank Australia are responsible for the appointment of the Directors, as well as approval of the remuneration for the provision of their services as directors of Arab Bank Australia.

Further, to ensure that the Board of Directors fulfils its stewardship responsibilities, Directors inform the Shareholders of all significant events concerning Arab Bank Australia through the distribution of the annual report to the shareholders. The annual report includes all information required by the Corporations Law, including information concerning the operations of the economic entity and changes in the state of affairs.

SUBSIDIARY BOARD

Arab Australia Capital Markets Limited, a wholly owned subsidiary of Arab Bank Australia Limited is also comprised of a majority of non-executive directors being:

Mr K A H Shoman
Mr A H A M Shoman
Mr J J Liu
Mr E Y Kim
Mr J Beighton
Mr G M Dundas

Directors' Report

The directors present their report together with the financial report of Arab Bank Australia Limited ("the Company") and the consolidated financial report of the economic entity, being the Company and its controlled entity, for the year ended 31 December 1999 and the auditors' report thereon.

DIRECTORS

The directors of the Company at any time during or since the financial year are:

K A H Shoman *Chairman*

President Arab Bank, Jordan

BA & MA (Econ), Jesus College,
Cambridge University, Cambridge England

During the financial year he attended 1 of the 3 directors' meetings held.

A H A M Shoman

Deputy President Arab Bank, Jordan

Bachelor of Business Administration
American University of Beirut, Beirut, Lebanon

During the financial year he attended 1 of the 3 directors' meetings held.

J J Liu

*Executive Vice President and Chief Executive -
Asia Pacific, Arab Bank, Singapore*

Graduate School of Commerce and Social Studies,
University of Birmingham, England

BA Middle East Area Studies,
American University of Beirut, Beirut, Lebanon

During the financial year he attended 2 of the 3 directors' meetings held.

J Beighton

Managing Director Arab Bank Australia Limited

Stanford Executive Programme, Stanford University

Fellow of the Australian Institute of
Company Directors

During the financial year he attended 3 of the 3 directors' meetings held.

J P Grant

Non-Executive Director Arab Bank Australia Limited

Fellow of the Institute of Chartered Accountants
in Australia

During the financial year he attended 3 of the 3 directors' meetings held.

G C E Wild

Non-Executive Director Arab Bank Australia Limited

Fellow of the Advertising Institute of Australia (dip.)

Associate of the Institute of Business Administration

Fellow of the Australian Institute of

Company Directors

During the financial year he attended 3 of the 3 directors' meetings held.

E Y Kim

Senior Vice President and Head –

North Asia, Arab Bank, Korea

Bachelor of Arts – Business Administration,
Korea University

During the financial year he attended 2 of the 3 directors' meetings held.

A Diplock

Non-Executive Director Arab Bank Australia Limited

Fellow of the Australian Institute of

Company Directors

Fellow of the Institute of Banking and Finance

During the financial year he attended 3 of the 3 directors meetings held.

PRINCIPAL ACTIVITIES

The principal activity of the Company and the economic entity is the provision of general banking services.

RESULTS

Consolidated operating profit of the economic entity before income tax was \$3,204,000 (1998 : \$2,982,000). The result included an increase in the General Provision for Doubtful Debts of \$950,000 (1998 : \$450,000). The directors considered that the increase in the General Provision for Doubtful Debts was prudent in view of the continued growth in the loan portfolio of the bank.

The net amount of consolidated profit of the economic entity for the year after income tax expense of \$1,516,000 (1998: \$ 1,227,000) was \$ 1,688,000 (1998: \$1,755,000).

DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The economic entity's activities expose it to changes in interest rates and foreign exchange rates. It is also exposed to credit, liquidity and cash flow risks from its operations. The Board has confirmed policies and procedures in each of these areas to manage these exposures.

It is economic entity policy to use derivative instruments to hedge cash flows subject to interest rate and foreign exchange rate price risks. Interest rate futures and foreign currency option contracts were the only derivative instruments held for speculative purposes during the year. Exposures to these instruments are minimal and managed by trading and stop-loss limits. The Board is advised when these limits are exceeded.

The economic entity has a strict credit policy for all customers on credit terms, and only deals with financial market intermediaries with an acceptable credit rating determined by a recognised rating agency.

Financial facilities and operating cash flows are managed to ensure that the economic activity is not exposed to any adverse liquidity risks. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business.

DIVIDENDS

No dividends have been paid or declared since the start of the financial year.

The directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 1999.

REVIEW OF OPERATIONS

During 1999, the bank continued to strengthen its balance sheet through the growth of its loan portfolio to \$390 million (1998 : \$302 million) and increased its retail deposits by thirty four percent to \$155 million (1998 : \$116 million).

The bank launched a cash management account during 1999 and expects to introduce internet banking, phone banking and Bpay in 2000.

CHANGE IN STATE OF AFFAIRS

In the opinion of the directors there were no significant changes in the state of affairs of the economic entity that occurred during the financial year under review.

EVENTS SUBSEQUENT TO BALANCE DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity, in subsequent financial years.

LIKELY DEVELOPMENTS

The directors believe, on reasonable grounds, that to include in this report particular information regarding likely developments in the operations of the economic entity and the expected results of those operations in subsequent financial years would be likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been included in this report.

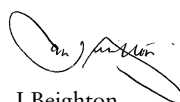
DIRECTORS' BENEFITS

Since the end of the previous financial year no director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by directors shown in the notes to the financial report) because of a contract made by the Company, its controlled entity or a related body corporate with a director or with a firm of which a director is a member, or with an entity in which the director has a substantial interest.

ROUNDING OFF

The Company is of a kind referred to in ASIC Class Order 98/100 dated July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors:



J Beighton
Director



J J Liu
Director

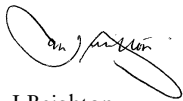
Dated at Sydney this 24th day of February 2000.

Directors' Declaration

In the opinion of the directors of
Arab Bank Australia Limited:

1. The financial statements and notes, set out on pages 8 to 32, are in accordance with the Corporations Law, including:
 - (a) giving a true and fair view of the financial position of the Company and consolidated entity as at 31 December 1999 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (b) complying with Accounting Standards and the Corporations Regulations; and
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



J Beighton
Director



J J Liu
Director

Dated at Sydney this 24th day of February 2000.

Independent Auditors' Report

SCOPE

We have audited the financial report of Arab Bank Australia Limited for the financial year ended 31 December 1999, consisting of the profit and loss accounts, balance sheets, statements of cash flows, accompanying notes, and directors' declaration set out on pages 6 to 32. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and its controlled entity. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

In our opinion, the financial report of Arab Bank Australia Limited is in accordance with:

- (a) the Corporations Law, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 1999 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.

KPMG
Chartered Accountants

P Russell
Partner

Dated at Sydney this 24th day of February 2000.

Profit and Loss Statements

for the year ended 31 December 1999

	Note	Consolidated		The Company	
		1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
Interest income	2	37,524	31,236	37,520	31,232
Less: Interest expense	4	26,389	21,495	26,392	21,497
Net interest income		11,135	9,741	11,128	9,735
Non-interest income	6	2,443	2,122	2,443	2,122
Total operating income		13,578	11,863	13,571	11,857
Less: General provision for doubtful debts	12	950	450	950	450
Non-interest expense	7	9,424	8,431	9,422	8,431
		10,374	8,881	10,372	8,881
Operating profit before income tax		3,204	2,982	3,199	2,976
Income tax expense attributable to Operating profit	8	1,516	1,227	1,514	1,225
Operating profit after income tax		1,688	1,755	1,685	1,751
Retained profits/(loss) at the beginning of the financial year		368	(1,387)	284	(1,467)
Retained profits at the end of the financial year		2,056	368	1,969	284

The profit and loss statements are to be read in conjunction with the notes to and forming part of the financial report set out on pages 11 to 32.

Balance Sheets

as at 31 December 1999

	Note	Consolidated		The Company	
		1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
Assets					
Cash and liquid assets		341	254	339	253
Due from other financial institutions	9	30,366	10,553	30,270	10,457
Investment securities	10	2,360	5,000	2,360	5,000
Loans and advances	11	387,687	300,490	387,687	300,490
Shares in controlled entity	24	-	-	70	70
Non-callable deposit with Reserve Bank of Australia		-	2,734	-	2,734
Plant and equipment	13	3,392	3,028	3,392	3,028
Other assets	14	5,106	5,262	5,104	5,260
Total assets		429,252	327,321	429,222	327,292
Liabilities					
Due to other financial institutions	15	85,305	116,084	85,305	116,084
Deposits	16	280,306	152,267	280,365	152,324
Income tax liability		893	847	891	845
Other liabilities	17	5,692	2,755	5,692	2,755
Total liabilities		372,196	271,953	372,253	272,008
Net assets		57,056	55,368	56,969	55,284
Shareholders' equity					
Share capital	18	55,000	55,000	55,000	55,000
Retained profits		2,056	368	1,969	284
Total shareholders' equity		57,056	55,368	56,969	55,284

The balance sheets are to be read in conjunction with the notes to and forming part of the financial report set out on pages 11 to 32.

Statements of Cash Flows

for the year ended 31 December 1999

	Note	Consolidated		The Company	
		1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
Cash flows from operating activities					
Interest and bill discounts received		37,076	30,764	37,072	30,760
Interest and other costs of finance paid		(25,605)	(20,733)	(25,608)	(20,735)
Fees and commission received		1,784	986	1,784	986
Cash paid to suppliers and employees		(4,981)	(6,675)	(4,980)	(6,676)
Income taxes paid		(1,465)	(1,240)	(1,462)	(1,237)
Net cash provided by operating activities	27(b)	6,809	3,102	6,806	3,098
Cash flows from investing activities					
Proceeds from sale of plant and equipment		85	2	85	2
Payments for plant and equipment		(1,481)	(307)	(1,481)	(307)
Payments for investments		2,640	2,000	2,640	2,000
Net decrease/(increase)					
Loans, advances and bills discounted		(88,147)	(64,349)	(88,147)	(64,349)
Due from other financial institutions		74	4,740	74	4,741
Statutory deposit		2,734	(817)	2,734	(817)
Net cash (used in) investing activities		(84,095)	(58,731)	(84,095)	(58,730)
Cash flows from financing activities					
Net (decrease)/increase					
Due to other financial institutions		(30,779)	9,951	(30,779)	9,951
Deposits		128,039	41,241	128,041	41,255
Net cash provided by financing activities		97,260	51,192	97,262	51,206
Net increase/(decrease) in cash held		19,974	(4,437)	19,973	(4,426)
Cash at the beginning of the financial year		10,637	15,074	10,636	15,062
Cash at the end of the financial year	27(a)	30,611	10,637	30,609	10,636

The statements of cash flows are to be read in conjunction with the notes to and forming part of the financial report set out on pages 11 to 32.

1 Statement of significant accounting policies

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with requirements of the Banking Act, Corporations Law, Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

These accounting policies have been consistently applied by each entity in the economic entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current financial year amounts and other disclosures.

(b) Basis of Accounting

The financial report has been prepared on the accrual basis of accounting using historical cost accounting except where otherwise indicated. The carrying amounts of all non-current assets are assessed as at the reporting date to ensure that they do not exceed their recoverable amounts. Recoverable amount is determined as the net amount expected to be recovered from the cash flows arising from the continued use and subsequent disposal of the asset or group of assets.

(c) Principles of Consolidation

The consolidated financial statements of the economic entity include the financial statements of the Company, being the parent entity, and its controlled entity.

The balances, and effects of transactions, between the Company and the controlled entity included in the consolidated financial statements have been eliminated.

(d) Bills discounted

Bills and other money market securities are stated at face value less income yet to mature, which is calculated on the number of days to maturity over the term of each instrument.

(e) Interest income

Interest income is brought to account on an accruals basis.

(f) Depreciation

Items of plant and equipment are depreciated at appropriate rates so as to write off the cost of each asset during its effective working life using the straight line method.

(g) Loans and Advances

Loans and advances are recognised at recoverable amount, after assessing required provisions for impairment. Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

Bad debts are written off when identified. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as an expense in the profit and loss account.

The annual charge against profit for the provision for doubtful debts reflects specific provisions (if any) and transfers to the general provision. The specific provisions are to cover all identified doubtful debts and the general provision is to cover unidentified risks inherent in the loan portfolio, which could emerge in the future.

(h) Foreign currency*Transactions*

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the profit and loss account in the financial year in which the exchange rates change.

(i) Deferred expenses

Deferred expenses included in the balance sheet under "other assets" are amortised against income over the periods in which the benefits are expected to arise.

(j) Investment securities

Investments in government bonds and other securities are intended to be held to maturity. They are recorded at cost, or at cost adjusted for premium or discount amortisation.

Shares in the controlled entity are carried at cost less provision for diminution in value, if appropriate.

(k) Taxation

The economic entity adopts the liability method of tax effect accounting. Tax effect accounting principles have been adopted whereby income tax expense has been calculated on pre tax accounting profits after adjustments for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in the provision for deferred income tax and future income tax benefit, as applicable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to entities with tax losses are only brought to account when their realisation is virtually certain. The tax effect of capital losses is not recorded unless realisation is virtually certain.

(l) Off-balance sheet financial instruments*i) Forwards, futures and options*

Forward foreign exchange contracts, foreign currency futures contracts, interest rate futures contracts, forward rate agreements, forward purchases and sales of securities and options entered into for trading purposes are valued at prevailing market rates. Gains and losses on such contracts are taken to profit and loss. Contracts entered into for hedging purposes are accounted for in a manner consistent with the accounting treatment of the hedged item.

ii) Swaps

Interest rate and currency swap agreements entered into for trading purposes are valued at their net present value after allowance for future costs and risk exposure. Gains and losses on such agreements are taken to profit and loss. Agreements entered into for hedging purposes are accounted for in a manner consistent with the accounting treatment of the hedged item.

(m) Employee entitlements

i) Long Service Leave

The liability for employee's entitlements to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employee's services provided up to the balance date.

Liabilities for employee entitlements which are not expected to be settled within twelve months are discounted using the rates attaching to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates, and the consolidated entity's experience with staff departures. Related on-costs have also been included in the liability.

ii) Superannuation plan

The Company contributes to a defined contribution superannuation plan. Contributions to the fund during the year were \$ 350,352 (1998 \$ 314,044).

	<i>Consolidated</i>		<i>The Company</i>	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
2 Interest income				
Parent entity	18	19	18	15
Other parties	37,506	31,217	37,502	31,217
	37,524	31,236	37,520	31,232

3 Average Assets and Interest Income

The following table shows the average balance for each of the major categories of interest-bearing assets, the amount of interest revenue and the average interest rate. Daily averages have been used for all categories in 1999. In 1998 month-end averages have been used except the "Balances with Local Financial Institutions" and "Balances with Overseas Financial Institutions" categories where daily averages have been used. The "Other" category consists mainly of interest income on derivative instruments used to hedge cash flows subject to interest rate and foreign exchange rate price risks.

	1999			1998		
	Average Balance \$' 000	Interest \$' 000	Average Rate %	Average Balance \$' 000	Interest \$' 000	Average Rate %
Balances with Reserve Bank	9,307	394	4.24	7,948	272	3.43
Balances with Local Financial Institutions	5,804	223	3.85	5,512	212	3.85
Balances with Overseas Financial Institutions	1,213	19	1.57	717	11	1.53
Investment Securities	8,957	415	4.63	6,025	320	5.30
Loans and Advances	335,377	24,934	7.43	266,662	20,095	7.54
Discounted Bills	9,256	529	5.71	5,606	319	5.69
Other	-	11,010	N/A	-	10,007	N/A
	369,914	37,524		292,470	31,236	

	<i>Consolidated</i>		<i>The Company</i>	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
4 Interest expense				
Parent entity	715	1,438	715	1,438
Subsidiary	-	-	3	2
Other parties	25,674	20,057	25,674	20,057
	26,389	21,495	26,392	21,497

5 Average Liabilities and Interest Expense

The following table shows the average balance for each of the major categories of interest-bearing liabilities, the amount of interest expense and the average interest rate. Daily averages have been used for all categories in 1999. In 1998 Month-end averages have been used except the "Local Financial Institution Deposits" and "Overseas Financial Institution Deposits" categories where daily averages have been used. The "Other" category consists mainly of interest expense on derivative instruments used to hedge cash flows subject to interest rate and foreign exchange rate price risks.

	1999			1998		
	Average Balance \$' 000	Interest \$' 000	Average Rate %	Average Balance \$' 000	Interest \$' 000	Average Rate %
Clients Deposits	127,453	5,241	4.11	107,724	4,454	4.14
Local Financial Institution Deposits	20,797	1,032	4.96	52,030	2,692	5.17
Overseas Financial Institution Deposits	73,101	718	0.98	33,766	1,450	4.29
Certificates of Deposits	96,382	4,882	5.06	43,939	2,204	5.02
Other	-	14,516	N/A	-	10,695	N/A
	317,733	26,389		237,459	21,495	

	<i>Consolidated</i>		<i>The Company</i>	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
6 Non-interest income				
Fees and commission income	1,740	1,441	1,740	1,441
Net foreign exchange gain	606	532	606	532
Other income	66	149	66	149
Profit on sale of non-current assets	31	-	31	-
	2,443	2,122	2,443	2,122
7 Non-interest expense				
Amortisation of deferred expenses	125	156	125	156
Depreciation and amortisation				
Plant and equipment	1,063	976	1,063	976
Loss on sale of non-current assets	-	10	-	10
Operating lease rental charges	648	582	648	582
Management fee – parent entity	240	240	240	240
Other operating expenses	7,348	6,467	7,346	6,467
	9,424	8,431	9,422	8,431
8 Taxation				
(a) Income tax expense				
Operating profit	3,204	2,982	3,199	2,976
Prima facie income tax expense calculated at 36% on the operating profit	1,154	1,074	1,152	1,072
Increase/(decrease) in income tax expense due to non tax deductible items:				
General provision for doubtful debts	342	162	342	162
Other non deductible items	19	7	19	7
Income tax expense on operating profit	1,515	1,243	1,513	1,241
Income tax under/(over) provided in prior year	1	(16)	1	(16)
Total income tax expense	1,516	1,227	1,514	1,225
Total income tax expense is made up of:				
Current income tax provision	1,511	1,259	1,509	1,257
Under/(over) provision in prior year	1	(16)	1	(16)
Future income tax benefit	4	(16)	4	(16)
	1,516	1,227	1,514	1,225

	<i>Consolidated</i>		<i>The Company</i>	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
(b) Future income tax benefit not taken to account				
Potential future income tax benefit from capital losses recognised as an asset	1,020	1,020	1,020	1,020

Potential future income tax benefits will only be obtained if:

- i) the Company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the economic entity in accordance with Division 170 of the Income Tax Assessment Act 1997;
- ii) the Company and the economic entity continue to comply with the conditions for deductibility imposed by the law; and
- iii) no changes in tax legislation adversely affect the relevant Company and the economic entity in realising the benefit.

	<i>Consolidated</i>		<i>The Company</i>	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
9 Due from other financial institutions				
Australia	28,268	10,296	28,172	10,200
Overseas				
Parent entity	1,950	214	1,950	214
Related parties	39	1	39	1
Other parties	109	42	109	42
	30,366	10,553	30,270	10,457
Maturity Analysis				
At Call	18,423	10,355		
Up to 1 month	11,847	28		
1 to 3 months	-	74		
3 to 12 months	96	96		
12 months to 5 Years	-	-		
Over 5 Years	-	-		
	30,366	10,553		
10 Investment Securities				
Government securities	2,360	5,000	2,360	5,000
Maturity Analysis				
Up to 1 month	-	2,000		
1 to 3 months	2,360	3,000		
3 to 12 months	-	-		
12 months to 5 Years	-	-		
Over 5 Years	-	-		
	2,360	5,000		

	<i>Consolidated</i>		<i>The Company</i>	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
11 Loans and Advances				
Loans and advances	369,393	292,249	369,393	292,249
Overdrafts	10,957	8,761	10,957	8,761
Bills discounted				
Parent entity	8,743	820	8,743	820
Related parties	-	-	-	-
Other parties	312	-	312	-
Gross Lease Financing	1,539	885	1,539	885
Lease Unearned Income and Stamp Duty	(207)	(125)	(207)	(125)
	390,737	302,590	390,737	302,590
Less -				
General Provision for doubtful debts	12 (3,050)	(2,100)	(3,050)	(2,100)
Net Loans and Advances	387,687	300,490	387,687	300,490
Maturity Analysis				
Overdrafts	10,957	8,761		
Up to 1 month	27,507	25,284		
1 to 3 months	45,868	36,308		
3 to 12 months	83,603	43,678		
12 months to 5 Years	124,286	106,565		
Over 5 Years	98,516	81,994		
	390,737	302,590		

	<i>Consolidated</i>		<i>The Company</i>	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
12 Provisions for doubtful debts and impaired assets				
(a) Provisions for doubtful debts				
General provision				
Balance at beginning of year	2,100	1,650	2,100	1,650
Charge to operating profit	950	450	950	450
Balance at end of year	3,050	2,100	3,050	2,100
Specific provisions	-	-	-	-
Total general and specific provisions	3,050	2,100	3,050	2,100

(b) Impaired assets

The Australian Prudential Regulation Authority has issued guidelines to banks for classifying and reporting impaired assets. There are three broad categories:

- Non-accrual items, which are defined as items in respect of which income may no longer be accrued ahead of its receipt because reasonable doubt exists as to the collectability of principal and interest. These items also include exposures where contractual payments are 90 or more consecutive days in arrears and where security is insufficient to ensure payment.
- Restructured items, which are defined as items in which the original contractual terms have been formally modified to provide for concessions of interest or principal for reasons related to the financial difficulties of the customer.
- Assets acquired through security enforcement or where the Group assumed ownership of an asset in settlement of all or part of a debt.

Arab Bank Australia Limited has no such impaired assets.

12 Provisions for doubtful debts and impaired assets (continued)

(b) Impaired assets (continued)

Although not classified as impaired assets, items which are in arrears for 90 or more consecutive days, but are well-secured and against which no provisions are held, are required to be reported separately. Interest accrued on these loans is suspended and not recognised in the profit and loss account until the principal outstanding is recovered or the account is no longer in arrears.

	<i>Consolidated</i>		<i>The Company</i>	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
Past due loans	-	-	-	-

13 Plant and equipment

Plant and equipment				
At cost	7,264	6,402	7,264	6,402
Less: Accumulated depreciation	3,872	3,374	3,872	3,374
Net book value	3,392	3,028	3,392	3,028

14 Other assets

Future income tax benefit	200	204	200	204
Interest receivable	2,603	2,155	2,601	2,153
Deferred expenditure	104	156	104	156
Other	2,199	2,747	2,199	2,747
	5,106	5,262	5,104	5,260

15 Due to other financial institutions

Australia	-	10,202	-	10,202
Overseas – parent entity	85,192	104,499	85,192	104,499
Overseas – related parties	69	439	69	439
Overseas – other	44	944	44	944
	85,305	116,084	85,305	116,084

	<i>Consolidated</i>		<i>The Company</i>	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
15 Due to other financial institutions (continued)				
Maturity Analysis				
At call	5,764	4,673		
Up to 1 month	14,687	111,351		
1 to 3 months	45,106	-		
3 to 12 months	19,748	60		
12 months to 5 Years	-	-		
Over 5 Years	-	-		
	85,305	116,084		
16 Deposits				
Current	10,180	6,526	10,180	6,526
Savings	4,867	6,410	4,867	6,410
At call	47,486	14,455	47,486	14,455
Term	92,113	88,972	92,172	89,029
Negotiable certificates of deposit	125,660	35,904	125,660	35,904
	280,306	152,267	280,365	152,324
Maturity Analysis				
At call	70,397	33,068		
Up to 1 month	82,255	53,566		
1 to 3 months	93,128	34,937		
3 to 12 months	14,407	10,536		
12 months to 5 Years	20,119	20,160		
Over 5 Years	-	-		
	280,306	152,267		

	<i>Consolidated</i>		<i>The Company</i>	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
17 Other liabilities				
Interest payable	2,807	2,023	2,807	2,023
Long service leave provision	161	132	161	132
Unearned income	90	46	90	46
Other	2,634	554	2,634	554
	5,692	2,755	5,692	2,755
18 Share capital				
55,000,000 ordinary shares fully paid	55,000	55,000	55,000	55,000

19 Financial Instruments**(a) Interest Rate Risk**

The economic entity enters into interest rate swap transactions to swap floating rate borrowings into fixed rates and vice versa. Maturities of swap contracts are principally between six months and five years.

The economic entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out in the following table.

19 Financial Instruments (continued)

(a) Interest Rate Risk (continued)

1999		Fixed interest maturing in :						
	Note	Weighted Average Interest Rate%	Floating Interest Rate \$'000	1 Year or less \$' 000	Over 1 to 5 Years \$' 000	More than 5 Years \$' 000	Non- Interest bearing \$' 000	Total \$' 000
Financial assets								
Cash and liquid assets			-	-	-	-	341	341
Due from other financial institutions	9	4.91	27,687	942	-	-	1,737	30,366
Investment securities	10	6.85	-	2,360	-	-	-	2,360
Loans and advances	11	7.34	228,428	100,380	61,930	-	-	390,738
		7.17	256,115	103,682	61,930	-	2,078	423,805
Financial liabilities								
Due to other financial institutions	15	0.72	2,542	79,541	-	-	3,222	85,305
Deposits	16	5.09	62,390	189,790	20,119	-	8,007	280,306
		4.08	64,932	269,331	20,119	-	11,229	365,611
Interest rate swaps*			(173,300)	120,400	52,900			

*Notional principal amounts

19 Financial Instruments (continued)

(a) Interest Rate Risk (continued)

1998		Fixed interest maturing in :							
	Note	Weighted Average Interest Rate%	Floating Interest Rate \$' 000	1 Year or less \$' 000	Over 1 to 5 Years \$' 000	More than 5 Years \$' 000	Non- Interest bearing \$' 000	Total	
Financial assets									
Cash and liquid assets			-	-	-	-	254	254	
Due from other financial institutions	9	4.53	8,638	198	-	-	1,717	10,553	
Reserve Bank Non-Callable Deposit		-	-	-	-	-	2,734	2,734	
Investment securities	10	5.63	-	5,000	-	-	-	5,000	
Loans and advances	11	7.34	154,894	107,172	40,524	-	-	302,590	
		7.40	163,532	112,370	40,524	-	4,705	321,131	
Financial liabilities									
Due to other financial institutions	15	4.15	2,007	111,411	-	-	2,666	116,084	
Deposits	16	4.38	29,388	99,039	20,160	-	3,680	152,267	
		4.28	31,395	210,450	20,160	-	6,346	268,351	
Interest rate swaps*			(120,250)	83,250	37,000				

*Notional principal amounts

19 Financial Instruments (continued)

(b) Foreign Exchange Risk

The economic entity enters into foreign exchange contracts for the purpose of meeting commitments in foreign currency, principally in United States Dollars.

Forward foreign exchange contracts are used to hedge anticipated commitments in foreign currency that exist as a method of providing local funding for the bank (by converting foreign currency into Australian Dollars) and of providing funding for foreign currency loans made to customers (by converting Australian Dollars into foreign currency). Typically these contracts are of one year or less until maturity.

(c) Credit Risk Exposures

On Balance Sheet Financial Instruments

The credit risk on financial assets, excluding investments, of the economic entity which have been recognised on the balance sheet, is the carrying amount, net of any provision for doubtful debts.

The economic entity minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties.

The economic entity is not materially exposed to any individual customer or overseas country.

Off Balance Sheet Financial Instruments

Credit risk on off-balance sheet swap and foreign exchange contracts is minimised as counterparties are recognised financial intermediaries with acceptable ratings determined by a recognised rating agency.

(d) Net Fair Values of Financial Assets and Liabilities

The net fair value estimates of the economic entity were determined by the following methodologies and assumptions :

Cash and Liquid assets

The carrying values of cash and liquid assets approximate their net fair value as they are short term in nature.

Due from other financial institutions

The carrying value of amounts due within six months approximate their net fair value. The net fair value of amounts due greater than six months have been calculated by discounting the future interest cash flows using a discount rate based on the current rate for the average remaining term.

19 Financial Instruments (continued)

(d) Net Fair Values of Financial Assets and Liabilities (continued)

Investment securities

The net fair value of Government securities have been determined by valuing them at the current quoted market offer price.

Loans and advances

The carrying value of loans and advances is net of general provision for doubtful debts and suspended interest. For variable loans and loans with rates fixed for a period less than six months, the carrying amount is a reasonable estimate of net fair value. The net fair value of fixed rate loans greater than six months was calculated by discounting the future interest cash flows using a discount rate based on the current market rate for the average remaining term.

Due to other financial institutions and deposits

The carrying values of amounts due within six months to other financial institutions and other depositors approximated their net fair value. The net fair value of liabilities with a longer maturity have been determined by using the discount methodology described above.

Interest rate swaps

The net fair value of interest rate swap instruments have been determined by valuing them at the current market quoted rates.

The carrying amounts and estimated fair values of financial assets and liabilities of the economic entity are as follows :

	1999		1998	
	Carrying Value \$'000	Net Fair Value \$'000	Carrying Value \$'000	Net Fair Value \$'000
Assets				
Cash and liquid assets	341	341	254	254
Due from other financial institutions	30,366	31,307	10,553	10,553
Investment Securities	2,360	2,422	5,000	5,106
Loans and advances	387,688	388,217	300,490	301,455
Non-callable deposit with Reserve Bank of Australia	-	-	2,734	2,734
Liabilities				
Due to other financial institutions	(85,305)	(85,305)	(116,084)	(116,084)
Deposits	(280,307)	(278,566)	(152,267)	(152,206)
Off-Balance Sheet				
Interest Rate Swaps	136	1,384	119	110

	<i>Consolidated</i>		<i>The Company</i>	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
20 Commitments for expenditure				
Operating leases				
Future operating lease rentals not provided for and payable:				
Not later than one year	624	507	624	507
Later than one year but not later than two years	456	521	456	521
Later than two years but not later than five years	921	827	921	827
Later than five years	49	291	49	291
	2,050	2,146	2,050	2,146

21 Auditors' remuneration

Amounts received or due and receivable by the Auditors of the Company for:				
Auditing the financial statements	40	40	40	40
Other services	28	39	27	38
	68	79	67	78

	<i>Consolidated</i>		<i>The Company</i>	
			1999	1998
			No.	No.
22 Directors' remuneration				
Directors' income				
The number of directors of the Company whose income from the Company or related bodies corporate falls within the following bands:				
\$ 0 - \$ 9,999			4	4
\$ 30,000 - \$ 39,999			3	-
\$ 40,000 - \$ 49,999			-	2
\$ 300,000 - \$ 309,999			-	1
\$ 330,000 - \$ 339,999			1	-
	1999	1998	1999	1998
	\$'000	\$'000	\$'000	\$'000
Total income received, or due and receivable, by all directors of the Company from the Company or related Bodies corporate			453	390
Total income received, or due and receivable by all directors of each entity in the economic entity from the Company, related bodies corporate, or its controlled entity	554	487		

The above amounts for the Company include non-cash benefits and related costs of \$58,938 (1998 \$57,769).

23 Commitments and contingencies

The Company is a party to financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of its customers, for trading purposes and to reduce its own exposure to fluctuations in interest and exchange rates.

Details of financial instruments with off balance sheet risk are as follows:

	<i>Consolidated</i>		<i>The Company</i>	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
	Face value		Face value	
Credit risk related instruments				
Letters of credit issued in the normal Course of business	-	-	-	-
Letters of credit confirmed in the normal Course of business	1,383	4,557	1,383	4,557
Letters of Guarantee given in the normal Course of business	2,041	1,889	2,041	1,889
Commitments to extend credit	62,521	54,477	62,521	54,477
Exchange rate and interest rate contracts (notional principal):				
Forward exchange rate contracts	78,966	105,881	78,966	105,881
Forward rate agreements	139,770	3,000	139,770	3,000
Swap contracts	173,300	120,250	173,300	120,250

24 Details of the controlled entity

Details of the controlled entity are:

Name	Country of Incorporation	Interest %	Book value of investment		Contribution to Consolidated profit	
			1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
Arab Australia Capital Markets Limited	Australia	100	70	70	3	4

Total assets: \$158,801 (1998: \$156,794), total liabilities: \$1,590 (1998: \$2,411).

25 Related party transactions

(a) Directors

The names of each person holding the position of director of Arab Bank Australia Limited during the financial year are Messrs K A H Shoman, A H A M Shoman, J J Liu, J Beighton, J P Grant, G C E Wild, E-Y Kim and A Diplock.

Details of directors' remuneration, superannuation and retirement payments are set out in Note 22.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the economic entity since the end of the previous financial year and there are no material contracts involving directors' interests existing at year end.

(b) Transactions within the wholly-owned group

During the financial year the Company engaged in banking transactions with Arab Bank plc, and its wholly owned subsidiaries. All transactions were on normal terms and conditions. The Company also paid Arab Bank plc a management fee for corporate services; these services are also provided on normal commercial terms and conditions.

(c) Transactions with other related parties

During the year the Company engaged in banking transactions with associated companies of Arab Bank plc. All transactions were on normal commercial terms and conditions. Balances with these companies are disclosed in the related notes to the financial statements.

(d) Parent Entity

The Parent Entity of Arab Bank Australia Limited is Arab Bank Plc, a company incorporated in Jordan.

26 Financial reporting by segments

Arab Bank Australia Limited does not have any separately reportable segments. The bank operates predominantly within the banking industry in Australia.

27 Notes to the Statements of Cash Flows

(a) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes cash on hand, cash at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the balance sheets as follows:

	<i>Consolidated</i>		<i>The Company</i>	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
Cash	341	254	339	253
Short term deposits	30,270	10,383	30,270	10,383
Total Cash	30,611	10,637	30,609	10,636

(b) Reconciliation of operating profit after income tax to net cash provided by operating activities

Operating profit after tax	1,688	1,755	1,685	1,751
Add/(less) items classified as investing activities:				
(Profit)/loss on sale of non-current assets	(31)	10	(31)	10
Add/(less) non-cash items:				
Depreciation of non-current assets	1,063	976	1,063	976
Decrease in deferred expenses	52	135	52	135
(Increase) in other assets	100	(847)	100	(848)
Increase in other liabilities	2,937	636	2,937	636
Increase in provisions for doubtful debts	950	450	950	450
Increase in income tax payable	46	(143)	46	(142)
Decrease (Increase) in future income tax benefit	4	130	4	130
Net cash provided by operating activities	6,809	3,102	6,806	3,098

	<i>Consolidated</i>		<i>The Company</i>	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
27 Notes to the Statements of Cash Flows (continued)				
(c) Net reporting of certain cash flows				
Cash flows arising from the following activities have been presented on a net basis in the Statements of Cash Flows:				
i) money market trading activities and retail lending activities;				
ii) customer deposits to and withdrawals from savings, money market and other deposit accounts;				
iii) balances due to and from other financial institutions;				
iv) statutory deposits; and				
v) investments.				
(d) Financing facilities				
Financing arrangements which are available to the group:				
Overdraft	-	250	-	250
Standby credit facilities with parent	20,000	20,000	20,000	20,000

At year end the above facilities were unutilised.