

Arab Bank Australia Annual Report 2010

CELEBRATING DIVERSITY



OUR DIVERSITY IS A RICH TAPESTRY OF CULTURE, EXPERIENCE AND KNOWLEDGE, BROUGHT TOGETHER BY OUR PEOPLE, FOR THE BENEFIT OF OUR CUSTOMERS.



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80

CELEBRATING A WORLD OF DIVERSITY AND STRENGTH

- 01..NAIM MELHEM
Senior Relationship Manager, Melbourne
- 02..THE TREASURY, JORDAN
Carved by hand from the face of the Jordan Mountains over 2,500 years ago, this landmark of human ingenuity stands today as testimony of the achievements of past civilisations
- 03..COLIN KASSIS
Senior Relationship Manager, Central Sydney
- 04..MARK SYKES
Senior Relationship Manager, Western Sydney and Health Industry Specialist
- 05..GEOFF WILD AM
Deputy Chairman of Arab Bank Australia, addresses attendees at the Bank's 15 Year Anniversary event
- 06..VILLAGE OF BCHARRE
One of the many Lebanese villages the Bank provides support and financial assistance to through local charitable associations
- 07..SAM BITAR
Relationship Manager, Melbourne
- 08..SHADI KHOURY
Relationship Manager, Central Sydney
- 09..RUSSEL STREET COMMERCIAL DEVELOPMENT, MELBOURNE CBD
Proudly financed by Arab Bank Australia
- 10..MICHAEL CANTSILIERIS
Relationship Manager, Dandenong
- 11..TEMPLE OF BAALBEK
Lebanon
- 12..TRAVELLERS PASSAGE
Petra, Jordan
- 13..BEIRUT, LEBANON
Arab Bank Australia can help facilitate the purchase of residential property in Lebanon
- 14..NINA CHAMI
Customer Service Representative, Western Sydney
- 15..JALIL WAKIM
Senior Business Development Manager, North West Sydney
- 16..SIGI CERVENY
Senior Relationship Manager, North West Sydney
- 17..NEW DANDENONG BANKING SUITE
The first banking centre of its kind for Arab Bank Australia, built to service the needs of the Greater Dandenong community
- 18..CHARBEL ABOUD
Relationship Manager, North West Sydney
- 19..ART GALLERY OF NSW
Arab Bank Australia is a proud sponsor of the Art Gallery Society's Learning Curve Lecture Series
- 20..PACIFIC OPERA
Performance of Hansel & Gretel proudly sponsored by Arab Bank Australia
- 21..EMILE CHAHINE
Head of Business Banking
- 22..WESTMEAD MILLENNIUM INSTITUTE
Arab Bank Australia has supported life saving research at this world class facility for over a decade
- 23..JOSEPH ESTEPHAN
Retail Relationship Manager, Western Sydney
- 24..TONY SHIDIAK
Senior Retail Relationship Manager, North West Sydney
- 25..KHALIL TALEB & FAMILY
Proprietors of Tempe Tyres, and proud customers of Arab Bank Australia
- 26..JANE MORRIS
Executive Assistant to the CEO
- 27..MIRA JABBOUR
Customer Service Supervisor, Western Sydney
- 28..TRADE TO THE MIDDLE EAST AND NORTH AFRICA
One of Arab Bank Australia's key areas of expertise

It was the summer of 1930 when the Arab Bank took its first step on a remarkable journey - a journey which still continues to this day, traversing the globe and in the process, creating one of the world's most successful financial institutions.

Enjoying a presence in five continents, and over 30 countries, the Arab Bank Group has, for over 80 years, used prudent judgement and conservative management principles to create a solid foundation on which to build and grow. In the past eight decades, the Bank has survived, and indeed flourished through wars, political unrest, global economic downturns, natural disasters and the constantly changing needs of society.

In Australia, the Bank has likewise blossomed from humble beginnings - a single branch in Parramatta, NSW - to a respected and growing organisation that is as diverse as it is unique.

Employing a highly skilled and experienced team, from a diverse range of business and cultural backgrounds, Arab Bank Australia has grown in strength each and every year, and has developed a suite of banking and financial services and products that are regularly recognised amongst the best in the country. With ten branches across Sydney and Melbourne, and an expanding and improving range of products and services, the future is bright for all that are part of the Arab Bank family.

DIVERSITY IN COMMUNITY SUPPORT

The Bank's strategy for community involvement is based on the core philosophy of "supporting the communities we serve".

The primary criteria for community involvement is whether the Bank can make a significant and tangible difference to the organisation or cause through its involvement, and whether the group's ambitions are in harmony with the Bank's core values of mutual respect, customer service, trust, community and empowerment.

Strategically, the Bank limits community involvement to three core areas: community wellbeing; community culture and community support. All financial contributions, sponsorships, partnerships and activity support are within these three key involvement parameters. Although they allow for a broad scope of community involvement, the Bank has instinctively supported areas of genuine community need or interest.

Where possible, the Bank's strategy is for its support to have a direct flow-on benefit to the people and local communities and businesses around its branch network, however many of its recent partnerships have benefited a much wider audience.



Parramatta Eels Rugby League Club

The Parramatta Eels are a major community entity in Sydney's West. The club's 'Blue and Gold Heart' Community Program provides generous assistance to a large number of community bodies in the western Sydney area, including the Children's Hospital at Westmead, Northcott Disability Services, Parramatta Mission, Ronald McDonald House, Westmead Streetworks and the Starlight Foundation.

Arab Bank Australia is a proud corporate partner of the Parramatta Eels.



Pacific Opera

Pacific Opera exists to provide professional development for emerging opera singers through a Young Artist Program, fully integrated with public performances of operas, concerts, events and workshops. The Sydney based company holds annual auditions for young artists from around Australia.

Arab Bank Australia was principal sponsor of Pacific Opera's 2010 production of Hansel & Gretel.



Westmead Medical Research Foundation

Westmead Medical Research Foundation opened in 1990 to support the life-saving medical research at Westmead in Sydney's west.

Arab Bank Australia has been a supporter and benefactor of the Foundation for almost a decade. The Bank's Managing Director, Mr. Joe Rizk acts as Vice President, volunteering countless hours of his time to providing leadership and corporate guidance.



Art Gallery of NSW

Established in 1874, the Art Gallery of NSW is proud to present fine international and Australian art in one of the most beautiful art museums in the world. The gallery is home to a distinguished collection of colonial and 19th-century Australian works and European old masters. There are also dedicated galleries celebrating the arts of Asia and Aboriginal and Torres Strait Islander art.

Arab Bank Australia are proud sponsors of the Art Gallery Society's Learning Curve Lecture Series.



FSHD Global Research Foundation

The FSHD Global Research Foundation is an Australian not-for-profit organisation dedicated to finding a treatment and cure for Facioscapulohumeral Dystrophy (FSHD).

The foundation has funded eleven research projects over the past three years in the USA, Netherlands, Italy, France, Belgium and Australia.

Arab Bank Australia proudly supports this unique work through financial contribution.



Australian Lebanese Chamber of Commerce

The objective of the Australian Lebanese Chamber of Commerce is the promotion and assistance of trade between Australia, Lebanon and the Middle East. The organisation is recognised by the Australian and Lebanese Governments.

One of the key mandates of the ALCC is to foster and develop trade and service opportunities between Australia, Lebanon and the Middle East.

The Bank has been a member of the Chamber for many years.



Australian Arab Chamber of Commerce & Industry

AACCI's mission is to assist Australian companies exporting to or expanding into Middle East and North African (MENA) markets and Arab companies looking to invest in Australia. It provides valuable expertise and consultation to both small businesses and larger Australian corporations interested in exploring the growth markets of the Arab world.

Arab Bank Australia has been a member of the AACCI for 12 years.



Westmead Breast Cancer Institute

The Westmead Breast Centre is the physical manifestation of the Westmead Breast Cancer Institute's vision of a 'one-stop shop' for the multi-disciplinary assessment and diagnosis of women with breast cancer by a team of health care professionals. It was the first purpose-built treatment centre in Australia.

Arab Bank Australia has proudly supported the life-saving work of the BCI for over two years, through participation in fund raising initiatives and events.



Australian Arab Business Network

Arab Bank Australia has been a proud partner of the AABN for many years. The Australian Arab Business Network is essentially a business referral and support network. It provides a casual monthly forum where members can exchange ideas, contacts, referral and expertise.



Arabic Heritage League

The Arabic Heritage League in Australia aims to promote cultural progress and bring to the dynamic and interactive Australian community information about what is happening in their homeland in terms of intellectual activity and humanitarian creativity.

The Arabic Heritage League has been formed for over 30 years and the Bank is a proud supporter of its activities and initiatives.

CHAIRMAN'S REPORT

Samir Kawar

2010 proved to be a year of strong performance as reflected by the highest cash earnings in the history of the operations of Arab Bank Australia.

Financial Performance

The Bank recorded a net profit after tax of \$5.66 million for the year ending 31 December 2010 compared to a loss of \$0.41 million in 2009. It was gratifying to note that the cash earnings grew by 43% from \$12.15million to \$17.43 million. This has been a clear highlight in the year's performance and a remarkable achievement given that competition amongst Banks remained strong.

The steady increase in fee income underlines the value of the Bank's focus to pursue new opportunities to add value to all key areas of our product and service offering.

Business efficiency remained an important focus and the improvement in cost to income ratio from 66% in 2009 to 56% in 2010 is a testimony to this effort. Total Assets reached \$1.34 billion, a growth rate of 10% over the year. The increase reflects a positive trend and is consistent with the strategy of the Bank to grow quality loans funded by retail deposits.

On a relative basis amongst our peers, our liquidity ratio continues to remain very high, emphasising the success of the Bank's prudent management during challenging times. This is further illustrated by our capital adequacy ratio at 15%, which reflects the strength of the balance sheet, and the Bank's solid financial performance over the course of the year.

Business Performance

Our philosophy of developing customer intimacy, and to 'understand our customer's business', by maintaining direct relationships with our clients rather than deal through third party intermediaries, has ensured our ability to grow our quality loan portfolio, and limit the level of credit risk to which we are exposed.

The ongoing support of our shareholder and Board has allowed the Bank to concentrate its efforts on building strong governance, an effective infrastructure, and a highly skilled and cohesive management team, all of which combined to deliver a very pleasing result in all major areas of the Bank's operations in 2010. This is synonymous with the success of our parent, whose prudent management skills have delivered an enviable balance sheet, despite the effects of the global financial crisis internationally.

The Highly successful 'hub' structure in the Bank's operational network, established in 2009 and the further improvement of our distribution systems has continued to not only deliver greater efficiencies and bottom line savings, but also provides a platform on which we can continue to deliver superior service and excellence in selected products.

Once again, we received high levels of praise and respect from the financial community, through a series of award wins for our deposit and loan products.

The effectiveness and success of the Bank's marketing programs continued to improve, and deliver returns on marketing investment that would be the envy of our competitors. The continued improvement in the general awareness of our brand, highly focused marketing strategies and media selection, and our strong competitiveness with respect to product offerings will continue to ensure the Bank's marketing initiatives remain

successful, despite overwhelming marketing expenditure by the major banks, and new entrants into the market.

Corporate Responsibility and Corporate Governance

We continued our commitment as a corporate citizen, through enhanced social responsibility and initiatives by donating to various local charities and support groups.

In accordance with the prevailing requirements for Corporate Governance we continue to include a separate report on the Bank's Corporate Governance policies within this Annual Report. This Corporate Governance report has been reviewed by the Bank's external auditors, Messrs. KPMG.

Board of Directors

As is more fully highlighted in the Report on Corporate Governance there was one change in the Board composition during the year with the Managing Director resigning towards the end of the year and as part of the succession plan a new Managing Director was appointed from within the Bank. We thank the previous Managing Director for his contribution to the Bank.

The Year Ahead

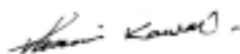
There is clear evidence of continuing resilience and buoyancy in the domestic and regional economies. 2011 promises to be an exciting year as the country continues to reap the benefit of high resources prices as well as other developments.

As a niche bank, we are well positioned to cater to the changing needs of the market. We have already realised that while the Bank will have to continue to grow its net interest income, we will have to continue to improve our share of fee based income on a recurring basis as a percentage of total income.

Conclusion

When reflecting on the great successes of the past year, one cannot but apportion a significant degree of credit to the ongoing support of our parent, Arab Bank plc. Once again, no repatriation of dividends has occurred – a clear sign of the long term support of and commitment to the Bank in Australia. The strength of our senior management team, under the guidance and direction of our uniquely experienced and dedicated Board, will play a large role in the ongoing success and achievements of the Bank in 2011 and beyond.

I take pride in acknowledging the strong affiliation we enjoy with our parent, and take this opportunity to thank our board of directors, our people and loyal customers for helping to make 2010 another great year for Arab Bank Australia.



Samir Kawar
Chairman

MANAGING DIRECTOR'S REPORT

Joseph Rizk

2010 proved to be a year of strong performance and achievement for Arab Bank Australia. We entered it with guarded optimism, acknowledging the global economy was still very much in the early stages of financial recovery, but knowing we had a solid foundation on which to continue the success of the previous twelve months.

Customer Relationships

Relationship banking remains a key drive for the Bank and all staff. During 2010 the Bank continued to deepen the culture of understanding of client's needs and their business. Feedback from business clients as evidenced in customer research results has been pleasing in respect to the intensive contact by their bankers and better knowledge of the Bank products on offer.

The Sales and Service Culture that is embedded in our staff has continued to set us apart from other financial institutions. This was reflected in the improved customer satisfaction, when dealing with our staff either face to face or when being contacted by our staff. We will continue to invest in the skill of our staff through internal and external training in order to improve their technical skills and be able to continue to provide an excellent service with a better understanding of customer needs and business.

Our Retail Relationship Managers continue to build on the strong foundations laid down in prior years by maintaining sound relationships with business referrers and community partners. The results achieved by the team are a great evidence of the quality of the service and the strong relationship they provide the community and business referrer partners.

With the completion of the restructuring of our business units into four geographic areas in 2009, the Bank focus in 2010 was on improving the work flow in each business unit. This focus will continue in the coming year by recruiting additional skilled resources, technical training and empowerment of our Relationship Managers and Senior Managers to allow better understanding of our business clients and faster service.

Our Senior Managers that now head specialised teams of bankers continue to make inroads each in this specialised segment by maintaining strong communication and relationships with industry bodies and business leaders. The Bank is committed to providing the managers with the support by introducing new products and the up grade of existing systems so they are better equipped to succeed in their chosen segments.

Our recruitment of a highly skilled Senior Manager, with a solid understanding of the Middle East and North African region, to head the Trade team has helped fulfill one of our key goals of leveraging on the obvious strength of our Parent in this region.

Increasingly, the needs and demands of the communities we serve are changing at a faster pace than ever before, and most certainly quicker than any time in the Bank's history in Australia. This presents both new challenges and opportunities for us as we evolve and adapt to the wants of our customers.

We are also operating in a time when competition in the Australian financial market is also at historical highs, as 2010 saw the size and domination of Australia's 'big four' banks increase further, as well as the aggressive marketing of wholly-owned niche brands introduced by the major banks, plus new entrants into the market.

Despite this competitive climate, Arab Bank Australia achieved a significant increase in both revenues and profit during this period. For a niche bank with limited distribution channels and a marketing budget the fraction of our larger competitors, the reason for our success in 2010 is clear testimony of the power of getting our business and strategic fundamentals right.

Quite simply, our success can be attributed to getting three things right: people, products and brand.

Like any service organisation, our people are our business. Our increased focus on creating efficiencies in our network, to enable our extended relationship management to work closer together has delivered better response capability and allowed our teams to get closer to our customers, developing deeper understandings of their needs, and delivering better outcomes. All of our staff, from our front line service team, to senior management, have demonstrated a relentless enthusiasm to understand our clients and deliver superior service at all levels. Our board and shareholder, as always, have been tireless in their support and guidance of our efforts.

Ultimately we compete on products, and in this area, we continue to excel. Knowing our customers intimately means we can deliver products that are better suited to their needs and goals. Yet again, we received industry recognition for our key products. Improvements to internet banking and our website has enabled us to deliver products and services to customers all over the country.

Finally, there is no doubt the growing strength and awareness of our brand, both locally and internationally, is increasingly fueling our success. Our brand is not just a logo; it is the embodiment of our values, our culture, our beliefs and our mission. It is the smiling face that greets you at our branch counters. It is the way we communicate with our customers. It is the efficiency of our service. It is the support we provide to the communities we serve through sponsorship of charity, medical research, culture and the arts. It is utilising our diversity for the betterment of those we serve.

Building on this foundation will enable the Bank to grow, even as competition continues to increase.

Operations

During 2010 Operations continued to contribute to the success of the Bank through direct support of the Bank's wider business units in servicing the needs for customers and staff alike.

Support of the branch network was via the development and launch of the exciting new banking suite concept at Dandenong. A ground-breaking concept for the Bank, instead of customers being greeted in a waiting area, our customers have immediate access to our Senior Relationship Managers as soon as they enter the suite. This has proved to be a highly effective and well received concept by both customers and staff alike.

2010 saw Operations play a pivotal role in the implementation and launch of our new Visa Debit Card product – delivering an exciting new debit card product that allows our customers access to full credit card functionality whilst using their own funds.

In terms of wider support, Operations worked closely with all areas of the Bank in diverse areas such as ongoing facilities management, transactional processing support and procurement.

Operations continued to develop closer relationships with key strategic support partners throughout the year with emphasis on cost effective, stable and reliable arrangements to underpin the Bank's ongoing operations in areas such as processing support, facilities and general business services.

2011 will see Operations continue to play a pivotal role in the development of the Bank's physical and non-physical delivery channels.

Capital and Treasury

In 2010, Arab Bank Australia Ltd continued to build upon its reputation as one of the most highly liquid and well capitalised banks within the Australian banking system. The Bank maintained an average Liquidity ratio (loans to deposits excluding bank to bank deposits) of approximately 80% and a capital adequacy ratio of approximately 15%. The capital adequacy was strengthened with the continued support of our parent, Arab Bank plc, in providing subordinated debt and has committed to ongoing capital support for the Bank and its operations in Australia in the years to come.

The increase in competition for retail deposits that emerged in 2009 following the global financial crisis and Basel III reforms continued during the year with entrants such as Ubank, Rabobank and ING enhancing their online offerings. Notwithstanding ABAL's smaller relative size and functionality, the Bank managed to remain competitive in the retail deposit sphere in line with its award winning heritage. The agreements that the Bank has entered into with Australia Post, NAB and enhancements to Internet Banking and ATM facilities have ensured that the Bank expanded its reach to new customers across the country. Complementing the Bank's retail customer base has been its commercial paper program for corporate and wholesale customers which earlier in the year was modified to issue A\$200 million in federal government guaranteed three year bonds. The issuance of these bonds was a great success for the Bank as the offer was well oversubscribed by a range of domestic and international corporate companies across a broad category of industries with the bonds themselves being rated AAA. This was the first time the Bank had issued long term bonds such as these. Together with the Bank's regular day to day commercial paper dealings, the bonds have helped to lift the profile of the Bank in the professional financial industry debt capital market as well as lengthen its funding profile and work to reduce the Bank's overall cost of funding.

Income from foreign exchange activity for 2010 was the second best in Arab Bank Australia's history. The record result was achieved through a proactive and consistent approach to managing both the retail branch based and wholesale exchange transactions through both local and international time zones in often volatile trading conditions. The volatility witnessed throughout the year originally from the shocks of the global financial crisis had spread to concerns over sovereign credibility and look set to continue impacting financial markets in the foreseeable future.

Product Development and Distribution

As part of our ongoing commitment to meet the needs of our customers, in 2010, we have continued to focus on enhancing our products, and improving our distribution capabilities.

We launched our own Visa Debit Card, which provides customers access to their funds with Arab Bank Australia at 29 million outlets globally. This was done in the first half of 2010 and we have seen growing interest from our customers for this product.

To provide our customers with an array of options for their financial needs, we are in the process of launching our Asset Finance product in the second quarter of 2011. The initial focus is for business equipment, commercial hire purchases or business assets such as heavy equipment used in the construction industry, specialised medical equipment and transport vehicles as we grow our volumes and progressively serve our customer needs better.

We are exploring the option of introducing Bank@Post, as part of enhancing our strategic partnership with Australia Post. Should we proceed with this option it would enable our customers to do their banking at Australia Post outlets. This is similar to our current arrangement with NAB, where customers have access to over 1,700 NAB branches to do their banking.

In order to provide customers with access to a broader ATM network at no charge, the Bank has a sub-network arrangement with NAB and rediATM, providing customers with more savings and greater convenience by giving them access to over 3,100 ATM locations nationwide. We are also committed to extending the Bank's branded ATM in 2011.

We enjoyed a significant increase in the number of our internet banking customers compared with 2009 which reflects both the changing landscape of Retail Banking, and the growing level of confidence in the Bank's brand and online experience.

As part of enhancing the customer experience we have embarked on a major upgrade to our Internet Banking system. In addition the upgrade of the system will also be introducing Mobile Banking which will allow the customer to do a number of their transactions using their hand held devices. We expect these changes to be introduced by the end of 2011.

In addition to these enhancements, the Bank's products have remained highly competitive and as further proof of our commitment to delivering excellence in our products and services, our business online savings account has achieved a five star CANSTAR rating in the business banking product category and the Bank's Online Savings Account has been named as one of the top three Savings Account for 2010 Money Magazine "Best of the Best" awards.

Technology

Information Technology (IT) continues to be the focus of the Bank as a mainstream asset. The Bank has continued with its investment in improving its information technology systems, with the completion of an upgrade to the Store Area Network (SAN) and Server Virtualisation Infrastructure which has enhanced our disaster recovery capabilities including improved network security at our secondary data centre. We have upgraded our SWIFT network communication links in preparation of an upgrade to SWIFT and the associated anti-money laundering solutions in 2011.

In 2010, we saw IT focus on aligning our systems closer to Arab Bank plc to leverage off their vast experience and knowledge in many areas. We continue to work with Arab Bank plc for the implementation of more comprehensive security controls across the network and application suites providing a more secure and auditable environment. We continue in our diligence in reviewing our Standard Operating Procedures to update documentation of processes and procedures for business continuity purposes and also to assist in finding efficiencies and improvement in delivering reliable service to our customers.

IT governance and reporting has seen a continued focus in 2010; with the IT governance committee taking a much higher priority and seniority to reflect the investment in and importance of information technology to a financial organisation of our size and calibre. We have enhanced IT reporting to both management and the Board within well defined thresholds.

We continue to build closer relationships with our vendors and providers working together on strategic partnerships like Dimension Data and AAPT.

Community Support

In 2010, Arab Bank Australia continued its ongoing commitment to supporting wider community causes through financial support of education, medical research, the arts, and a number of charities and causes.

Arab Bank Australia celebrated a major milestone in 2010, the celebration of the Bank's 15 years in Australia and 80 years globally. A large number of the Bank's customers, guests and employees attended this prestigious event and the Bank acknowledged their support over the years. The event was a major success for the Bank and created a great image and reputation of the brand across the Arabic and broader community.

We continued our long association with the Westmead Medical Campus, through our ongoing long term support of The Millennium Foundation, renamed Westmead Medical Research Foundation. We supported their major project for 2010, the "My Westmead" campaign, which aims to grow the Westmead Hospital campus and support specific care units within the Hospital.

Our support throughout 2010 assisted in increasing our brand profile and reputation within the community, a reputation of goodwill that generates greater credibility on the Arab Bank Australia brand. Arab Bank Australia hope to continue its support throughout 2011, our focus in 2011 is to continue to grow the Arab Bank Australia brand and persist to associate a prominent reputation of the Brand through supporting various community initiatives.

Credit Risk Management

2010 proved to be a year of significant challenge in the managing of credit risk within the Bank. Whilst the level of successful transactions remained steady, the quality of new proposals and opportunities was not as consistent as previous years. Notwithstanding this, several new borrowing relationships were established that proved to be sound and profitable. New lending for construction increased due to opportunities that arose as a result of the major Banks focussing on other sectors. The Bank has continued to assess credits on a conservative basis and our policy of taking on only new credit risks that have been appropriately mitigated and priced has continued.

Watch list and impaired loans grew in 2010, when the full brunt of the global financial crisis was felt in Australia, albeit to a lesser extent than the other developed economies. A much higher level of provisioning for potential loan losses was the unfortunate result. The Bank has worked hard to minimise these losses and provisions, implementing appropriate and sometimes innovative workout and/or recovery strategies. A small number of large impaired assets impacted on our ability to realise supporting security without significant legal and recovery costs being incurred.

Several new policy initiatives have been put in place in 2010. These included reaching an agreement with accountancy firms to undertake pre-lending reviews of certain new business opportunities. At the instruction of the Board Credit Committee we also implemented the requirement that all requests to refinance other lenders where exceptions to credit policy were apparent were required to be approved by the next level of authority. Also introduced was a requirement that all commercial property offered as security was to either have two valuations completed, or a valuation check undertaken by another Valuer from the Bank's panel.

One-on-one coaching by Credit staff has also increased. The credit team is working closely with the lending teams to manage loan arrears in an effort to recognise developing problems as early as possible.

Risk and Compliance

The Bank's risks are managed through a consistent and transparent approach to risk management which is applied across the organisation. This framework is frequently reviewed and updated so as to ensure it keeps serving the Bank's strategic objectives.

Our risk management principles are intended to allow the Bank to achieve an appropriate balance between risk and return. It is designed to manage rather than eliminate the risk of failure to achieve the Bank's objectives, and as such, provides a calculated but not absolute assurance against material misstatement or loss.

The delivery and the management of our products are underpinned by a well articulated risk appetite and documented policies and procedures. Each business within the Bank is responsible for the continuous and active management of its risk exposures within the boundaries of the Bank's risk appetite. A functionally independent Risk and Compliance Department provides consistent analysis and an objective assessment of risk-taking activities with the goal of helping senior management align the interests of all stakeholders including shareholders, clients and employees.

An established governance process ensures clear and transparent communication lines are maintained among all stakeholders. Risk and Compliance maintains direct and frequent communication with the Board to ensure prudent risk management and efficient implementation of risk procedures. Both internal and external auditors regularly review all operating functions of the Bank to ensure all processes are competent and up to date.

The constant changes in the regulatory environment mean that new compliance risks arise that require addressing. We are responsible for ensuring compliance with applicable legislation, prudential standards and industry codes by capturing not only the letter but the spirit of those requirements.

As a member of the Arab Bank Group, we derive strength and support from our parent's strong and sound risk and compliance corporate governance. The underlying principles that have guided Arab Bank since its inception are today being reinforced as part of the new world financial order.

In today's environment there is an ever-increasing importance being placed on effective risk management. The Bank intends to stay ahead of the curve by maintaining a strong risk culture and governance and ensuring the clear and active communication between business groups about the risks we face and how they can be managed.

Human Resources

The key to success of any business is the people behind it. Possessing a strong culture, a clearly defined strategic direction and a commitment to the learning and development of our people is testament to the highly committed and loyal workforce that exists in Arab Bank Australia Limited. Whilst we pride ourselves on being part of a global award winning organisation, we are equally proud that our workforce comprises of local employees who share and work towards the Bank's global vision.

We continue to invest heavily in the development of our employees at all levels, with 2010 seeing a continued increase in the Bank's learning and development investment. Emphasis on the professional development, sales, service, lending and technical skills of our employees is critical to our success. Our aim is to create a work environment that supports and challenges our workforce to provide our customers with an exceptional and unique customer service experience. This focus assists our staff, in particular our lending staff, to form professional and genuine business relationships with our customers thus maintaining a sustainable edge over our competitors.

The Bank's Core Values – Mutual Respect, Trust, Customer Service, Community and Empowerment – are demonstrated and encouraged in each of our daily activities and play an integral role in our recruitment and selection process. Our recruitment approach focuses on selecting highly motivated individuals with a customer-centric focus, a high level of interpersonal skills, professionalism and an affinity with the communities in which we serve.

Further achievements in 2010 included the introduction of a Bank-wide Short Term Incentive Plan, and training in Occupational Health and Safety Awareness, Fraud Prevention and Control Awareness and National Consumer Credit legislation.

In 2011, key priorities for Human Resources include delivering the corporate learning and development plan across the organisation, developing and implementing an in-house mentoring model, assessing the Bank's retention strategies and continuing to empower employees across all levels of the organisation with coaching, advice and professional development guidance.



Joseph Rizk
Managing Director

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

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

Corporate Governance

The Board of Directors has adopted a Corporate Governance Framework, which includes the Board's Charter and the Corporate Governance Guidelines.

The Board Charter sets out the key governance principles adopted by the Board for the management of Arab Bank Australia Limited ("the Company"), and its controlled entity, being the economic entity.

The Board recognises that corporate governance is fundamental to the effective operation of the economic entity. The principles set forth in the Board Charter are designed to reflect the full force and intent of the Australian Prudential Regulation Authority's Prudential Standard APS 510 Governance.

The Corporate Governance Guidelines reflect the key corporate governance principles as set out and adopted by the Board in the Board Charter. The Corporate Governance Guidelines have been adopted to collate the functions and operating principles under which the Board and its Board Committees operate.

The Corporate Governance Guidelines are intended to serve as a reference in focusing on and evaluating the corporate governance framework and procedures for compliance with the Australian Prudential Regulation Authority's Prudential Standard APS510 Governance. In so doing, the arrangements achieve sound corporate governance, and the generation of value for the shareholder.

Role of the Board of Directors

The Board of Directors is responsible to the shareholder, employees and customers for the corporate governance of the economic entity.

The role and responsibilities of the Board of Directors are set out in the Board Charter. The responsibilities include:

- Corporate Governance of the Bank, including the establishment and empowerment of Committees of the Board to assist in its functions;
- overseeing the business and affairs of the Bank by:
 - establishing, with management, the overall direction taking into account shareholder objectives, and approving the strategies and financial objectives set out in the annual budgets to be implemented by management;

- approving major corporate initiatives;
- approving capital expenditure in excess of limits delegated to management;
- ensuring that an appropriate level of capital is maintained commensurate with the level and extent of risks to which the Bank is exposed from its activities;
- approving risk management frameworks, including credit policies and standards, financial statements and reports;
- overseeing the establishment of systems for risk management such as risk management policies and procedures, operational risk policies and accounting policies;
- monitoring the performance of management directly, and through its Committees; and
- carrying out the functions specifically reserved for the Board and its Committees under the policies of the Board and consistent with the charters of those Committees;
 - approval of documents (including reports and statements to the shareholder) required by the Bank's Constitution, the Corporations Act 2001 and other applicable laws and regulations;
 - all aspects of the appointment of the Managing Director, including nomination to the shareholder; and
 - approval of the Bank's major human resource policies and overseeing the development strategies for senior and high performing executives including succession planning for the Managing Director and Chief Managers.

The Board retains the right to alter the matters reserved for its decision.

Beyond the roles and responsibilities of the Board noted above, the Board delegates to the Managing Director authority for the day-to-day management of the Bank.

In carrying out its role, the Board will operate in a manner reflecting the Bank's values and Codes of Conduct, and in accordance with the Board Charter, the Corporate Governance Guidelines, the Bank's Constitution, the Corporations Act 2001 and other applicable laws and regulations.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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.

- The Bank's Constitution specifies the required number of directors as being at least five, and not more than nine directors (or such lower number as the board may determine from time to time), including the managing director but not including any alternate directors.
- The majority to be non-executive directors. These non-executive directors need not all be independent. They can include Board members or senior management of the parent company or the parent's other subsidiaries, but not executives of the Bank or the Bank's subsidiaries;
- A minimum of two independent directors is required, in addition to an independent chairperson where the Board has up to seven members. Where the Board has more than seven members, the Board will be required to have at least three independent directors, in addition to an independent chairperson; and
- At least two of the directors of the Board must be ordinarily resident in Australia, and at least one of those must be independent. The independent directors on the Board of the parent company or its other subsidiaries can also sit as independent directors on the Board of the Bank.

There are currently 8 directors of the Bank, and details of their experience, qualifications, interests in other organisations, special responsibilities, and attendance at meetings are set out in the Directors' Report.

Membership of the Board consists of:

Non-executive Independent Chairman:
His Excellency, Samir F Kawar

Non-executive Independent:
Geoffrey C E Wild AM
Ian G MacDonald
Leslie E Taylor AM

Non-executive:
Dina Shoman
Eun-Young Kim
Samer S H Al Tamimi

Executive:
Joseph Rizk (Appointed 22 December 2010)
James Wakim (Resigned 21 December 2010)

Independence

The Board regularly assess the independence of each director, in accordance with the criteria for independence set out in Prudential Standard APS510. An independent director is a non-executive director who is free from any business or other association including those arising out of a substantial shareholding, involvement in past management or as a supplier, customer or adviser that could materially interfere with the exercise of their independent judgment.

In addition to being required to conduct themselves in accordance with the ethical policies of the Bank, directors are required to be meticulous in their disclosure of any material contract or relationship in accordance with the Corporations Act 2001 and related Bank policies, and this disclosure extends to the interests of family companies and spouses.

Directors are required to strictly adhere to the constraints on their participation and voting in relation to matters in which they may have an interest in accordance with the Corporations Act 2001 and the Bank's policies.

Each director may from time to time have personal dealings with the Bank. Each director is involved with other companies or professional firms, which may from time to time have dealings with the Bank. Details of offices held by directors with other organisations are set out in the Directors' Report. Full details of related party dealings are set out in notes to the Bank's accounts as required by law.

All the current non-executive directors of the Bank have been assessed for their independence and their status is set out in the membership table above after taking into account the criteria referred to above.

Whilst a term of service is a consideration in assessing a director's ability to act in the best interests of the Bank, a term of service on the Board is generally not considered to affect a director's ability to act in the best interests of the Bank. Independence is judged against the ability, integrity and willingness of the director to act. In considering a director's tenure, the Board however ensures that the skill sets of directors remain appropriate.

Director Appointment and Review

The Board has agreed on the criteria which form the basis of selecting candidates for Board appointment.

The Board annually assesses the skills base, experience and qualifications of the existing directors to enable identification of attributes required in directors to ensure it has the expertise required to competently discharge the Board's duties, having regard to the strategic direction of the Bank.

The Board compares the skills base and experience of existing directors with that required for the future strategy of the Bank to enable identification of attributes required in new directors.

After consideration of the results of the performance assessment, the Board will determine its endorsement of the directors to stand for re-appointment at the next Annual General Meeting.

The Board has agreed to adopt a policy whereby a director's appointment is reviewed, with the shareholder, every four years, on a rotation basis, to ensure skills remain appropriate (except where succession planning for the Chairman requires an extended term). In accordance with the requirements of Prudential Standard APS510, the Board has established this policy for review of directors' tenures to ensure that it remains open to new ideas and independent thinking while retaining adequate expertise. The Board gives consideration to whether directors have served on the Board for a period which could, or could reasonably be perceived to, materially interfere with their ability to act in the interests of the Bank.

The Board has in place a process for annually reviewing its performance, policies and practices, with a view to identifying the quality and effectiveness of the Board, its committees and individual directors, and the processes that support them.

In addition to a Director Induction Program, the Board will identify any additional areas where education is required and suggest appropriate development activities for directors after consideration of the results of the annual performance assessment of directors.

Committees

The Board has established the following Board Committees:

- Board Audit Risk & Compliance Committee;
- Board Remuneration Committee; and
- Board Credit Committee.

The Board has approved a Charter and Operating Governance Practices for each of the Board Committees, and reviews the Board Committees on an annual basis.

In addition, the Board has determined that the terms of reference and operations of the BARCC will reflect the requirements of Prudential Standard APS510.

Board Audit, Risk and Compliance Committee ("BARCC")

Membership of the BARCC consists of:

Leslie E Taylor AM (Chairman)
Geoffrey C E Wild AM
Eun-Young Kim
Ian G MacDonald

The Board Audit, Risk and Compliance Committee's primary responsibility is to assist the Board in fulfilling its fiduciary and statutory responsibilities in relation to the external reporting of financial information, compliance and regulatory issues, internal control framework, risk management systems, and the independence and effectiveness of audit activities, plus any other matters referred to it by the Board.

The Charter of the BARCC incorporates the BARCC's authority, responsibilities, and a work program to ensure the BARCC can fulfil its purpose and exercise its responsibilities effectively. The Charter of the BARCC also incorporates a number of policies and practices to ensure it remains independent and effective. Among these are:

- The BARCC is to be comprised of at least three directors. The directors must be entirely non-executive directors, and it is preferable to have at least one who has expertise in financial accounting and reporting.

The Managing Director must not be a member of the BARCC.

- A majority of members must be independent of management and free of any relationship, which could interfere with their independent judgment.
- The Chairman of the BARCC is appointed by the Board and must not be the same person as the Chairman or Deputy Chairman of the Board. The Chairman must be an independent director.
- The Managing Director, the Executive Manager Internal Audit, the Risk Manager, Compliance Manager and representatives of the external auditor, and legal advisor will attend meetings by invitation.
- At least once a year, the BARCC meets the external auditor and the Executive Manager Internal Audit independently of management.
- The BARCC is responsible for nominating the external auditor to the Board for appointment by the shareholder. KPMG have been appointed external auditors of the Bank.
- The external auditor must, in accordance with the Corporations Act 2001, comply with the auditor independence requirements and applicable prudential standards (including APS510 and APS520) and codes of professional conduct. The BARCC will assess on at least an annual basis, the independence, fitness and propriety of the external auditors.
- Audit fees are reviewed by the BARCC each year, to determine that an effective, comprehensive and complete audit can be conducted for that fee.
- The scope of the audit is agreed between the BARCC and the external auditor and is subject to the minimum requirements of the Corporations Act 2001 (which regulates audit requirements), accounting standards and other mandatory professional reporting requirements in Australia.
- The external audit partner attends meetings of the BARCC by invitation and attends the Board meeting when the annual accounts are signed. However, the external auditor may also raise matters directly with the Board.
- The BARCC, in relation to dealing with the independence of the external auditor, inter alia, has adopted the practice of meetings between the BARCC and the Auditors in the absence of management.
- The BARCC discusses and receives recommendations from the external auditors on the quality of the Bank's systems, its accounting processes and its financial results. It also receives a report from the Auditors on any significant matters raised by the Auditors with management.
- All material accounting matters requiring exercise of judgment by management are specifically reviewed by the BARCC and reported on by the BARCC to the Board.

The policy governing the provision of non-audit services by the external auditor is set out in the BARCC Charter and Operational Governance Practices.

The Bank requires the partner managing the external audit be changed within a period of 5 years.

The BARCC is responsible for the oversight of management in the preparation of the Bank's Financial Statements and financial disclosures. The BARCC relies on the information provided by management and the external auditor. The Managing Director, together with the Chief Financial Officer declare in writing to the Board that the financial records of the Company for the financial year have been properly maintained and the Company's financial reports for the financial year comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This representation is required annually.

Board Remuneration Committee ("BRC")

Membership of the BRC consists of:

Ian G MacDonald (Chairman)
Geoffrey C E Wild AM
Eun-Young Kim

The purpose of the BRC is to assist the Board in fulfilling its responsibilities relating to remuneration and people matters, and compliance with related employment laws and regulations. It does this by ensuring that the Bank has appropriate remuneration and people systems in place by monitoring their effectiveness.

The policy of the Board is that the BRC will consist of at least three directors. The directors must be entirely non-executive directors. The Managing Director attends meetings by invitation except when matters affect him personally.

The Charter of the BRC incorporates the BRC's authority, responsibilities, a number of policies, practices and a work program to ensure the BRC can fulfil its purpose and exercise its responsibilities effectively.

Board Credit Committee ("BCC")

Membership of the BCC consists of:

Geoffrey C E Wild AM (Chairman)
Samer S H Al Tamimi
Eun-Young Kim
Ian G MacDonald

The purpose of the BCC is to assist the Board in the oversight of credit risk assumed by the Bank in the course of carrying on its business. The BCC is to consider the Bank's credit policies and ensure that management maintains a set of credit standards designed to achieve portfolio outcomes consistent with the Bank's risk / return expectations. The BCC is to also review the Bank's credit portfolio and recommendations by management for provisioning of bad debts.

The policy of the Board is that the BCC will consist of at least three directors. The directors must be entirely non-executive directors. The Managing Director attends meetings by invitation.

The Charter of the BCC incorporates the BCC's authority, responsibilities, a number of policies, practices and a work program to ensure the BCC can fulfil its purpose and exercise its responsibilities effectively.

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 and procedures, manuals and guidelines. It is also based upon an organisational structure which provides an appropriate segregation of responsibility given the size of the Company, an internal audit function which provides reasonable assurance to the Managing Director and the Board, and the careful selection and training of qualified personnel by Human Resources.

Risk Management

The Board recognises that an effective risk management framework is a critical component of an organisation's overall strategy and performance objectives. The risk management framework articulates and builds a consistent methodology for the identification, assessment, mitigation and monitoring of risks that is inclusive of, but not limited to, operational, business, market, and credit risks. The framework incorporates risk management practices, including reporting, within the business in a formal manner.

The Bank has adopted a structured and disciplined approach to risk management, which includes:

- Board oversight and approval of the Bank's risk management framework;

- Board Audit Risk and Compliance Committee oversight and guidance for management of market, funding, liquidity, operational, business continuity, compliance and security risks for consideration by the Board;
- Board Credit Committee oversight and guidance for management of credit risks for consideration by the Board;
- Managing Director direction;
- Business Unit Managers support and adherence;
- Risk management processes and procedures; and
- Audit assurance.

Ethical standards

Code of Conduct

The Bank has adopted a Code of Conduct, which sets out the basis for a sound, ethical and impeccable business practice, to which all directors and employees undertake to observe.

The Code requires that all employees and directors act with the highest standard of personal and professional integrity. The Code recognises that the Bank is a fiduciary of public funds and therefore has a commitment to protect the interests of its customers as well as complying with all laws and regulations governing the Bank's business. For this purpose, the Code establishes the sets of standard behaviour required of all employees and directors. Among these are the standards for general responsibilities in relation to ethical conduct, information handling, conflicts of interest, due diligence, gifts and entertainment, fraud, dishonesty, criminal conduct, integrity, whistle blowing, advertising, and information security.

In keeping with its responsibility to the shareholder, employees and customers, a set of Core Values has been adopted, which embrace the principles of mutual respect, trust, customer service, community and empowerment. To emphasise the importance of the Core Values, the Core Values are regularly communicated to all personnel throughout the organisation.

Conflict of Interest

In addition to the requirements of the Corporations Act 2001 and the Bank's Constitution, the Board has adopted the Bank's Conflict of Interest Policy, which describes the potential conflicts that are required to be addressed and managed by the business. This policy applies to all employees, including directors, and requires the completion of an annual Conflict of Interest Policy declaration.

The policy requires that all employees, including directors, have an obligation to avoid, and disclose, any financial, business or other relationships, which might conflict with the legitimate business interests of the Bank or the proper performance of their duties. Such a conflict will exist where an employee compromises their ability to act with total objectivity with regard to the Bank's business interests.

Role of the Shareholder

The shareholder of the Company, Arab Bank plc, is responsible for the appointment of the directors, as well as approval of the remuneration for the provision of their services as directors of the Company.

Further, to ensure that the board of directors fulfil their stewardship responsibilities, directors inform the shareholder of all significant events concerning the Bank through the distribution of the Annual Financial Report. The Annual Financial Report includes all information required by the Corporations Act 2001, including information concerning the operations of the economic entity and changes in the state of affairs.

The managers of the Bank are accountable directly to the Managing Director. As a member of the Arab Bank Group, management personnel will take into full consideration respective functions of Arab Bank plc to ensure business plans and policies take into account the interests of the Group and achieve standardisation where appropriate. In particular, the credit risk policies of the shareholder are to be appropriately adopted by the Bank through the representation of the nominees of the shareholder in the Board and Committees.

The respective roles that the Board has reserved for itself, and delegated to management, are to be viewed in this context. The Board must ensure that any Group policies followed by the Board give appropriate regard to the Bank's business and its specific requirements.

Subsidiary Board

Arab Australia Capital Markets Limited, a wholly owned subsidiary of Arab Bank Australia Limited, is comprised of the following directors, Messrs:

Eun-Young Kim
Joseph Rizk (Appointed 22 December 2010)
James Wakim (Resigned 21 December 2010)
Geoffrey C E Wild AM

DIRECTOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2010

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 2010 and the auditors' report thereon.

Directors

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

His Excellency Samir F Kawar

Chairman and Non Executive Independent Director

His Excellency, Mr Kawar, has been a member of the Board, and Chairman, since 23 June 2005. He is chairman of Middle East Insurance Co, Modern Agricultural Investments and Inso Strong Insulation Co, and is a non executive, independent director of Arab Bank plc. He holds a Masters in Engineering.

Mr Geoffrey C E Wild AM

Deputy Chairman and Non Executive Independent Director

Mr Wild has been a member of the Board since 2 November 1995, and Deputy Chairman since 9 September 2004. He is Chairman of the Board Credit Committee, and member of the Board Audit, Risk & Compliance Committee and the Board Remuneration Committee.

Mr Wild is also the Chairman of WPP Holdings Australia and related entities, and ComOps Limited. Other directorships held are Ooh! Media Limited, IBISWorld Limited and Wild Family Nominees Pty Ltd.

He is a Fellow of the Advertising Institute of Australia (dip), Fellow of the Australian Institute of Company Directors, Associate of the Institute of Business Administration, and a Member of the Order of Australia (AM).

Mr Eun-Young Kim

Non Executive Director

Mr Kim has been a member of the Board since 1 July 1995. He is a member of the Board Audit, Risk & Compliance Committee, Board Remuneration Committee and Board Credit Committee and is Executive Vice President and Area Executive of Arab Bank plc, Singapore. He holds a Bachelor of Arts degree in Business Administration.

Mr Leslie E Taylor AM

Non Executive Independent Director

Mr Taylor has been a member of the Board since 25 November 2004 and is Chairman of the Board Audit, Risk and Compliance Committee.

He is also Chairman of the Whitehouse Institute of Fashion and Design.

Mr Taylor is a member of the Australian Securities and Investment Commission (ASIC) External Advisory Panel and a Member of the Order of Australia (AM). Mr Taylor is a solicitor.

Mr Ian G MacDonald

Non Executive Independent Director

Mr MacDonald has been a member of the Board since 1 July 2006. He is Chairman of the Board Remuneration Committee, and a member of the Board Audit, Risk & Compliance Committee and the Board Credit Committee.

He is a director of CPT Global Limited, Elders Limited, Elders Forestry Management Ltd, Elders Trustees Limited, Tasmanian Public Finance Corporation, APT Projects Ltd and Rural Bank Ltd.

Mr MacDonald is a Senior Fellow of the Financial Services Institute of Australasia, and a Member of the Australian Institute of Company Directors.

Mr Samer S H Al Tamimi

Non Executive Director

Mr Al Tamimi has been a member of the Board since 4 June 2007.

He is a member of the Board Credit Committee and Executive Vice President Corporate and Investment Banking, Arab Bank plc, Jordan.

Mr Al Tamimi has a Master of Science in Professional Accountancy and a Certified Public Accounting CPA qualification.

Ms Dina "Moh'd Abdel Hamid" A Shoman

Non Executive Director

Ms Shoman has been a member of the board since 13 August 2008.

She is a director of Arab Tunisian Bank, Arab Bank plc and Raneen – a non-profit organisation and Executive Vice President of Branding (Marketing Corporate Communications and Service Excellence) Arab Bank Plc, Jordan. She is also a Trustee of INJAZ.

Ms Shoman has a Masters in Business Administration and a degree in Finance.

DIRECTOR'S REPORT (CONTINUED)**Directors (continued)****Mr Joseph Rizk**

Managing Director

Mr Rizk was appointed as Managing Director on 22 December 2010.

He is the Vice Chairman and Director of Westmead Medical Research and Director of the Lebanese Chamber of Commerce.

Mr Rizk has over 36 years experience in Banking including various roles at National Australia Bank before joining the Bank as Chief Banking Officer in 2005. He is a fellow of the Financial Services Institute of Australasia, and a member of the Australian Institute of Company Directors.

Mr James Wakim

Former Managing Director

Mr Wakim held the position of Managing Director from 8 February 2001 until his resignation on 21 December 2010. He is a director of Westmead Medical Research Foundation and member of the Advisory Board for the Westmead Millennium Institute for Medical Research, Senior Fellow of the Financial Services Institute of Australasia and Fellow of the Australian Institute of Company Directors. He holds a Bachelor of Economics (Econometrics) degree.

Directors' Meetings

The number of Directors' meetings held (including meetings of committees of Directors) and number of meetings attended by each of the Directors during the financial year were:

<i>Director</i>	<i>Meetings Held</i>	<i>Meetings Attended</i>
His Excellency, Samir F Kawar	4	4
Geoffrey C E Wild AM	4	4
Joseph Rizk*	0	0
Samer S H Al Tamimi	4	4
Eun-Young Kim	4	4
Ian G MacDonald	4	4
Leslie E Taylor AM	4	4
Dina Shoman	4	3
James Wakim**	4	4

*Joseph Rizk was appointed as Managing Director on 22 December 2010. All meetings held for 2010 were prior to his appointment.

**Resigned on 21 December 2010

Committee Meetings**Audit, Risk & Compliance Committee**

<i>Director</i>	<i>Held</i>	<i>Attended</i>
Leslie E Taylor AM	4	4
Geoffrey C E Wild AM	4	4
Eun-Young Kim	4	4
Ian G MacDonald	4	4

Remuneration Committee

<i>Director</i>	<i>Held</i>	<i>Attended</i>
Ian G MacDonald	3	3
Geoffrey C E Wild AM	3	3
Eun-Young Kim	3	3

Credit Committee

<i>Director</i>	<i>Held</i>	<i>Attended</i>
Geoffrey C E Wild AM	5	5
Samer S H Al Tamimi	5	4
Eun-Young Kim	5	5
Ian G MacDonald	5	5

Principal activities

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

Results

The consolidated profit/(loss) before income tax expense/(credit) was \$8,018,000 (2009: \$(553,000)).

The consolidated profit/(loss) after income tax expense/(credit) of \$2,359,000 (2009: \$(148,000)) was \$5,659,000 (2009: \$(405,000)).

Auditor's independence

The lead auditor's independence declaration is set out on page 14 and forms part of the Directors' report for the year ended 31 December 2010.

Indemnification and insurance of officers and auditors

The Company has agreed to indemnify the directors and officers of the Company and its controlled entity against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as officers of the Company and its controlled entity, except where the liability arises out of conduct involving a lack of good faith. The Company has, during the year, maintained insurance contracts indemnifying current and former directors and officers of the Company. Disclosure by the Company of the amount of the insurance and the nature of the liabilities covered by the insurance contracts is prohibited under the terms of the contract.

The company has not entered into any agreement with their current auditors, KPMG, which indemnifies them against any claims by third parties arising from their report on the Annual Financial Report.

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 2010 (2009:Nil).

Review of operations

Overall the Bank continued to perform well in a difficult small to medium business environment. Profit before tax excluding provisions for bad and doubtful debts of \$17.4m exceeded the prior year by 43.5%. Loans and advances to customers increased by 7.7%, while deposits from customers decreased by 7.9%. Liquidity remains strong and capital adequacy also remains strong at a similar level to the prior year. The Bank continues to reduce operating costs reflected by a reduced cost to income ratio from 66% in 2009 to 56% in 2010.

Change in state of affairs

With effect from 21st December 2010, James Wakim resigned his position as Managing Director of ABAL. On 22nd December 2010 Joseph Rizk assumed this position. In the opinion of the directors there were no other significant changes in the state of affairs of the economic entity that occurred during the financial year under review.

Environmental regulations

The company and the economic entity are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory.

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 Group, the results of those operations, or the state of affairs of the Group in future financial years.

Likely developments

The directors believe, on reasonable grounds, that to include in this report further information regarding likely developments in the operations of the economic entity and the expected results of those operations in future financial years would be likely to result in unreasonable prejudice to the economic entity.

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 (as amended by ASIC Class Order 04/667) 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.

This report is made with a resolution of the directors:



Joseph Rizk
Director



Leslie Taylor AM
Director

Dated at Singapore this 2nd day of March 2011

BOARD OF DIRECTORS



HIS EXCELLENCY,
SAMIR F KAWAR
Chairman and Non Executive
Independent Director

MR GEOFFREY C E WILD AM
Deputy Chairman and
Non Executive
Independent Director

JOSEPH RIZK
Managing Director and CEO

MR EUN-YOUNG KIM
Non Executive Director



MR IAN G MACDONALD
Non Executive
Independent Director

MR LESLIE E TAYLOR AM
Non Executive
Independent Director

MR SAMER S H AL TAMIMI
Non Executive Director

MS DINA "MOH'D ABDEL
HAMID" A SHOMAN
Non Executive Director

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ARAB BANK AUSTRALIA LIMITED

Report on the financial report

We have audited the accompanying financial report of Arab Bank Australia Limited (the Company), which comprises the statements of financial position as at 31 December 2010, and income statements and statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, notes 1 to 33 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company and the Group comprising the Company and the entity it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

- a) the financial report of Arab Bank Australia Limited is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the Company's and the Group's financial position as at 31 December 2010 and of their performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001.
- b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

KPMG

Brendan Twining
Partner

Sydney
2 March 2011

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To: the directors of Arab Bank Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2010 there have been:

- i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Brendan Twining
Partner

Sydney
2 March 2011

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FOR THE YEAR ENDED 31 DECEMBER 2010

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INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Consolidated		The Company	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Interest income	4	120,971	89,890	120,965	89,887
Interest expense	4	88,139	60,413	88,141	60,420
Net interest income		32,832	29,477	32,824	29,467
Non-interest income	4	7,190	6,489	7,190	6,489
Operating Income		40,022	35,966	40,014	35,956
Loan impairment charges	10	9,709	12,704	9,709	12,704
Operating expenses	4	22,295	23,815	22,295	23,815
(Loss)/profit before income tax expense		8,018	(553)	8,010	(563)
Income tax (credit)/expense	5(a)	2,359	(148)	2,352	(151)
Net (loss)/profit		5,659	(405)	5,658	(412)

The Income statements are to be read in conjunction with the notes to the financial statements set out on pages 32 to 63.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Consolidated		The Company	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Profit for the period		5,659	(405)	5,658	(412)
Other comprehensive income					
Effective portion of changes in fair value of cash flow hedges	23	878	4,005	878	4,005
(Amortisation of)/Gains on discontinued cash flow hedging instruments	23	(34)	(2,849)	(34)	(2,849)
Net change in fair value of available-for-sale investments	23	690	(691)	690	(691)
Other comprehensive income/(loss) before income tax		1,534	465	1,534	465
Income tax on other comprehensive income	5(a)	460	140	460	140
Other comprehensive income/(loss) for the period, net of income tax		1,074	325	1,074	325
Total comprehensive (loss)/income for the period		6,733	(80)	6,732	(87)

The Statements of comprehensive income are to be read in conjunction with the notes to the financial statements set out on pages 32 to 63.

STATEMENTS OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Consolidated		The Company	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Assets					
Cash and cash equivalents	32	9,809	11,358	9,809	11,358
Receivables from other financial institutions	6	125,823	41,854	125,576	41,779
Held to maturity investments	7	69,367	77,304	69,367	77,304
Financial assets at fair value through profit or loss - designated		24,617	24,227	24,617	24,227
Derivative assets	8	149	1,263	149	1,263
Loans and advances to customers, net	9	956,117	887,904	956,117	887,904
Financial assets – available for sale	11	142,168	157,915	142,168	157,915
Shares in controlled entity	12	-	-	70	70
Plant and equipment	13	892	841	892	841
Intangible assets	14	1,033	1,074	1,033	1,074
Deferred tax assets	5	5,389	6,367	5,389	6,367
Other assets	15	3,280	2,517	3,298	2,511
Total assets		1,338,644	1,212,624	1,338,485	1,212,613
Liabilities					
Payables to other financial institutions	16	250,342	275,942	250,342	275,942
Derivative liabilities	8	1,093	3,231	1,093	3,231
Deposits	17	714,688	775,611	714,688	775,763
Debt securities issued	18	203,084	-	203,084	-
Provision for employee entitlements	19	903	664	903	664
Current tax liability		307	1,672	303	1,669
Other liabilities	20	4,078	4,333	4,078	4,327
Subordinated debt	21	50,009	43,764	50,009	43,764
Total liabilities		1,224,504	1,105,217	1,224,500	1,105,360
Net assets		114,140	107,407	113,985	107,253
Equity					
Share capital	22	55,000	55,000	55,000	55,000
Reserves	23	10,047	8,013	10,047	8,013
Retained earnings	24	49,093	44,394	48,938	44,240
Total equity		114,140	107,407	113,985	107,253

The Statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 32 to 63.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Share capital	Hedging reserve	Credit reserve	Fair value reserve	Retained earnings	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated							
<i>For the year ended 31 December 2010</i>							
Balance as at 1 January 2010		55,000	(1,099)	9,596	(484)	44,394	107,407
Other comprehensive income, net of income tax							
Profit/(loss) for the period		-	-	-	-	5,659	5,659
Effective portion of changes in fair value of cash flow hedges, net of tax	23	-	615	-	-	-	615
Change in discontinued cash flow hedge reserve, net of tax	23	-	(24)	-	-	-	(24)
Net change in fair value reserve, net of tax	23	-	-	-	483	-	483
Total comprehensive income for the period	23	-	591	-	483	5,659	6,733
Transfer from retained earning to credit reserve	23	-	-	960	-	(960)	-
Balance as at 31 December 2010		55,000	(508)	10,556	(1)	49,093	114,140
Company							
<i>For the year ended 31 December 2010</i>							
Balance as at 1 January 2010		55,000	(1,099)	9,596	(484)	44,240	107,253
Other comprehensive income, net of income tax							
Profit/(loss) for the period		-	-	-	-	5,658	5,658
Effective portion of changes in fair value of cash flow hedges, net of tax	23	-	615	-	-	-	615
Change in discontinued cash flow hedge reserve, net of tax	23	-	(24)	-	-	-	(24)
Net change in fair value reserve, net of tax	23	-	-	-	483	-	483
Total comprehensive income for the period	23	-	591	-	483	5,658	6,732
Transfer from retained earning to credit reserve	23	-	-	960	-	(960)	-
Balance as at 31 December 2010		55,000	(508)	10,556	(1)	48,938	113,985

The Statements of changes in equity are to be read in conjunction with the notes to the financial statements set out on pages 32 to 63.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

Note	Share capital \$'000	Hedging reserve \$'000	Credit reserve \$'000	Fair value reserve \$'000	Retained earnings \$'000	Total \$'000
Consolidated						
<i>For the year ended 31 December 2009</i>						
Balance as at 1 January 2009	55,000	(1,908)	8,736	-	45,659	107,487
Other comprehensive income, net of income tax						
Profit/(loss) for the period	-	-	-	-	(405)	(405)
Effective portion of changes in fair value of cash flow hedges, net of tax	23	2,804	-	-	-	2,804
Change in discontinued cash flow hedge reserve, net of tax	23	(1,995)	-	-	-	(1,995)
Net change in fair value reserve, net of tax	23	-	-	(484)	-	(484)
Total comprehensive income for the period	23	809	-	(484)	(405)	(80)
Transfer from retained earning to credit reserve	23	-	860	-	(860)	-
Balance as at 31 December 2010	55,000	(1,099)	9,596	(484)	44,394	107,407
Note	Share capital \$'000	Hedging reserve \$'000	Credit reserve \$'000	Fair value reserve \$'000	Retained earnings \$'000	Total \$'000
Company						
<i>For the year ended 31 December 2009</i>						
Balance as at 1 January 2009	55,000	(1,908)	8,736	-	45,512	107,340
Other comprehensive income, net of income tax						
Profit/(loss) for the period	-	-	-	-	(412)	(412)
Effective portion of changes in fair value of cash flow hedges, net of tax	23	2,804	-	-	-	2,804
Change in discontinued cash flow hedge reserve, net of tax	23	(1,995)	-	-	-	(1,995)
Net change in fair value reserve, net of tax	23	-	-	(484)	-	(484)
Total comprehensive income for the period	23	809	-	(484)	(412)	(87)
Transfer from retained earning to credit reserve	23	-	860	-	(860)	-
Balance as at 31 December 2010	55,000	(1,099)	9,596	(484)	44,240	107,253

The Statements of changes in equity are to be read in conjunction with the notes to the financial statements set out on pages 32 to 64.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

Note	Consolidated 2010 \$'000	Consolidated 2009 \$'000	The Company 2010 \$'000	The Company 2009 \$'000
Cash flows from operating activities				
Interest received	125,194	88,303	125,182	88,300
Fees, commission and other non-interest received	7,363	7,191	7,363	7,191
Interest payments	(89,358)	(55,828)	(89,360)	(55,835)
Income taxes paid	(3,206)	(3,288)	(3,200)	(3,282)
Payments to employees and suppliers	(20,155)	(22,234)	(20,149)	(22,242)
Loans, advances and bills discounted	(80,368)	(8,310)	(80,368)	(8,310)
Net cash from/(used in) operating activities	32(b)	(60,530)	(60,532)	5,822
Cash flows from investing activities				
Proceeds from sale of plant and equipment	21	-	21	-
Purchase of property, plant and equipment	(813)	(554)	(813)	(554)
Change in financial assets at fair value through profit or loss – designated	(754)	(24,039)	(754)	(24,039)
Change in held to maturity investments	7,000	200,221	7,000	200,221
Change in financial assets – available-for-sale	16,437	(158,606)	16,437	(158,606)
Net cash from/(used in) investing activities	21,891	17,022	21,891	17,022
Cash flows from financing activities				
Change in due to other financial institutions	(25,460)	50,493	(25,478)	50,491
Change in deposits	140,269	(199,067)	140,117	(199,053)
Change in subordinated debt	6,250	18,750	6,250	18,750
Net cash (used in)/from financing activities	121,059	(129,824)	120,889	(129,812)
Net (decrease)/increase in cash and cash equivalents	82,420	(106,968)	82,248	(106,968)
Cash and cash equivalents at the beginning of the financial year	53,212	160,180	53,137	160,105
Cash and cash equivalents at the end of the financial year 32(a)	135,632	53,212	135,385	53,137

The Statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 32 to 64.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

1. Reporting entity

Arab Bank Australia Limited (referred to as the “Bank” or “Company”) is a Company domiciled in Australia. The address of the Company’s registered offices is level 9, 200 George Street, Sydney, NSW, 2000.

The consolidated financial statements as at and for the year ended 31 December 2010, comprise the Company and its subsidiary, Arab Australia Capital Markets Limited (referred to as “Group” or “Consolidated entity”).

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2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Banking Act, Corporations Act 2001, Australian Accounting Standards (“AASBs”) (including Australian interpretations) adopted by the Australian Accounting Standards Board (AASB) and other mandatory reporting requirements so far as the requirements are considered appropriate to a banking corporation. The consolidated financial report of the Group and the financial report of the company comply with the International Financial Reporting Standards (“IFRS”) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 2 March 2011.

(b) Basis of measurement

The financial statements are prepared on the basis of historical cost except for the following material items in the statement of financial position:

- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value
- Financial assets – available for sale are measured at fair value

(c) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the Group’s functional currency.

The company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- note 10 – Provisions for impairment
- note 25 – Fair value of financial instruments

These assumptions and estimations can result in a material adjustment within the next financial year.

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3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and all entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All balances and transactions between Group entities have been eliminated on consolidation.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to Australian Dollars at the exchange rates at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Cash and cash equivalents

Cash and cash equivalents includes notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost in the Statements of financial position.

(d) Financial instruments

Non-derivative financial instruments

The Group initially recognises loans and receivables, liabilities held at cost, and deposits on the date they are originated. Financial assets at fair value through profit or loss and financial assets available-for-sale are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. On derecognition of a non-derivative financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial instruments are classified into one of the following categories which determines their measurement basis:

Receivables from other financial institutions

Receivables from other financial institutions includes loans, nostro balances and settlement account balances due from other banks and regulatory deposits. They are brought to account at the gross value of the outstanding balance. Interest on receivables due from other financial institutions is recognised using the effective yield method.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity assets are measured at amortised cost using the effective interest method, less any impairment losses.

Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and following two financial years. However, sales and classifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset’s fair value
- sales or reclassifications after the Group has collected substantially all of the asset’s original principal
- sales or reclassifications attributable to non-recurring isolated events beyond the Group’s control that could not have been reasonably anticipated.

Loans, advances and other receivables

Loans, advances and other receivables are financial assets with fixed and determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

They include overdrafts, residential lending, commercial lending, personal lending and term loans. Loans originated by the Group are recognised when cash is advanced to borrowers. They are initially recorded at fair value, which is the fair value of the cash given to originate the loan, including any transaction costs directly attributable to the acquisition or issue of the loan, and are subsequently measured at amortised cost using the effective interest rate method.

Loans, advances and other receivables are presented net of provisions for impairment. Note 3(g) provides additional information with respect to impairment.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group’s investments in selected bonds and floating rate notes are classified as available-for-sale financial assets.

Subsequent to initial recognition they are measured at fair value and changes therein other than impairment losses are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Subordinated debt

Subordinated debt is provided by Arab Bank Plc. Subordinated debt is initially recorded at fair value plus transaction costs that are directly attributable to the debt. Subsequently the subordinated debt is measured at amortised cost. Interest is recognised using the effective yield method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)**(e) Shareholders' equity**

Ordinary share capital is the amount of paid up capital from the issue of ordinary shares.

(f) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments that include foreign exchange contracts, forward rate agreements, futures, cross currency and interest rate swaps. Derivative financial instruments are used as part of the Group's trading activities and to hedge certain assets and liabilities.

The Group initially recognises derivative financial instruments at the fair value of consideration given or received. They are subsequently remeasured to fair value. A positive revaluation amount of a contract is reported as an asset and a negative revaluation amount of a contract as a liability.

Interest rate swaps receipts and payments are recognised within net interest income using the effective interest method. Revaluation gains and losses are recognised within other operating income unless designated in an effective cash flow hedge relationship.

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedge relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship.

Prior to the adoption of hedge accounting, changes in the fair value of the derivatives were recognised in other operating income. Subsequent to the application of hedge accounting the changes in fair value of these derivatives are accounted for as described below:

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

A fair valuation gain or loss represents the amount by which changes in the fair value of the expected cash flow of the hedging derivative differ from the fair value of the changes in the cash flow of the hedged item.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a financial asset the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

If the derivative hedging instrument is designated as a cash flow hedge subsequent to the deal date, the effective portion of movements in fair values post designation are recognised in equity. Movements in fair value prior to designation are recognised in the income statement. An amount equal to the effective portion of the fair value at designation is amortised to the income statement in accordance with the expected future cash flows of the derivative hedging instrument.

(g) Provisions for impairment

The Group assesses at each balance sheet date whether there is objective evidence that financial assets excluding derivative assets and assets at fair value through profit or loss are 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 loss events that occurred after the initial recognition of the asset and prior to the Balance Sheet date ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or portfolio that can be reliably estimated. If any such indication exists, the asset's carrying amount is written down to the asset's estimated recoverable amount.

Loans and advances and held to maturity assets

The Group assesses at each reporting date whether there is any objective evidence that individual loans and advances and held to maturity assets or groups of these financial assets are impaired.

Objective evidence that an individual asset or a group of these assets are impaired includes, but is not limited to, observable data from the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, etc.

If there is objective evidence that an impairment loss on loans and advances or held to maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the asset's recoverable amount.

Loans are presented net of provisions for loan impairment. The Group has individually assessed provisions and collectively assessed provisions. Individually assessed provisions are made against financial assets that are individually significant or which have been individually assessed as impaired.

All other loans and advances that do not have an individually assessed provision are assessed collectively for impairment. Collective provisions are maintained to reduce the carrying amount of the portfolios of similar loans and advances to their estimated recoverable amount at the Balance Sheet date.

This is calculated taking into consideration historical loss data, current available information for assets with similar risk characteristics, evidence of indicators of impairment, and a qualitative assessment of changes in the environment. When required the collective impairment provision is recognised through the income statement.

Available-for-sale financial assets

The Group assesses at each Balance Sheet date whether there is any objective evidence of impairment. For available-for-sale financial assets a prolonged decline in the fair value below the cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets cumulative losses are removed from equity and recognised in profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets are assessed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Income Statements.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. This would not exceed the carrying amount net of amortisation or depreciation, if no impairment loss had been recognised in prior years.

(h) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditure which is directly attributable to the acquisition of the asset.

Depreciation

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

The estimated useful lives of property, plant and equipment are as follows:

Plant and Equipment - 3 to 5 years

Furniture - 6 years

Motor Vehicles - 5 years

Leasehold Improvements - Life of Leasehold

Depreciation rates for property, plant and equipment are reviewed periodically to ensure they appropriately reflect residual values and estimated useful lives.

(i) Intangibles*Computer software*

The Group capitalises certain computer software costs and recognises them as an intangible asset where they are clearly identifiable, can be reliably measured and will lead to future economic benefits that the Group controls.

The Group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but usually not exceeding 5 years.

Intangibles are assessed annually for impairment in accordance with Note 3 (g).

(j) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

(k) Shares in controlled entities

Equity contributions to the controlled entity are carried in the Bank's financial statements at the lower of cost of acquisition or recoverable amount.

(l) Deposits and other public borrowings

Deposits and other public borrowings include certificates of deposits, term deposits, savings deposits, cheque and other demand deposits. They are brought to account at fair value plus directly attributable transaction costs at inception.

Deposits and other public borrowings are subsequently stated at amortised cost. Interest is charged to the income statement using the effective yield method.

3. Significant accounting policies (continued)**(l) Deposits and other public borrowings (continued)***Interest expense*

Interest expense is recognised on a time proportion basis that takes into account the effective interest rate of the liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument (or where appropriate, a shorter period) to the amount of the financial liability.

(m) Payables due to other financial institutions

Payables due to other financial institutions include deposits, vostro balances and settlement account balances due to other banks. They are brought to account at fair value plus directly attributable transaction costs at inception. Payables due to other financial institutions are subsequently stated at amortised cost. Interest is charged to the income statement using the effective yield method.

(n) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The principal sources of revenue are interest income, fees and commissions.

Interest income

Interest income is recognised on a time proportion basis that takes into account the effective interest rate on the asset. The effective interest rate is the rate that exactly discounts estimated 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 financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. Interest is only suspended on loans, advances and other receivables when an impairment assessment has concluded that the interest is not recoverable.

There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably.

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities measured at amortised cost calculated on an effective interest basis
- Interest on available-for-sale investment securities calculated on an effective interest basis

Lending fees

Fees and direct costs relating to loan origination, financing or restructuring and to loan commitments are deferred and amortised to non interest income over the expected life of the loan using the effective interest rate method. Fees received for commitments which are not expected to result in a loan are included in credit-related fees and commissions and amortised on a straight-line basis over the commitment period. Where fees are received on an ongoing basis and represent the recoupment of the costs of maintaining and administering existing loans, these fees are taken to income when the service has been provided.

Commission and other fees

When commission charges and fees relate to specific transactions or events, they are recognised as income in the period in which they are received. However, when they are charged for services provided over a period, they are taken to income on an accrual basis.

Trading gains and losses

Trading gains and losses comprise gains or losses related to trading assets and liabilities, and include all realised and unrealised fair value changes, interest and foreign exchange differences.

(o) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(p) Income taxes

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the Income Statements except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Company and its wholly owned subsidiary, Arab Australia Capital Markets Limited are part of a tax consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The Head company within the tax-consolidated group is Arab Bank Australia Limited.

(q) Employee benefits*Long service leave*

The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using estimated future service costs and is discounted to its present value.

Wages, salaries, annual leave and non-monetary benefits

Liabilities for annual leave which are expected to be settled within 12 months of the reporting date represent obligations resulting from employee's services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits such as medical care and cars are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

(r) Other liabilities

Other liabilities include all other financial liabilities and include interest, fees and other unrealised expenses payable and securities purchased not delivered. These liabilities are recorded at cost.

(s) General reserve for credit losses

In accordance with the Australian Prudential Regulatory Authorities (APRA) guidelines the Group reallocates a portion of retained earnings to a non-distributable reserve which is calculated as 1% of risk weighted assets. This reallocation is not recognised in the income statement.

(t) Presentation of financial statements

The Group applies revised AASB 101 Presentation of Financial Statements (2007) which became effective as of 1 January 2009.

(u) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these consolidated financial statements.

None of these will have an effect on the consolidated financial statements of the Group, with the exception of:

- IFRS 9 Financial Instruments published on 12 November 2009 as part of phase 1 of the IASB's comprehensive project to replace IAS 139, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 139 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables.
- The standard requires the derivatives embedded in contracts with a host that is a financial asset within the scope is not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.
- The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.
- Aspects of financial instrument accounting which will be addressed in future phases of the project include the accounting for financial liabilities, impairment of amortised cost assets and hedge accounting.
- The Group is currently in the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

4. Operating profit and expenses

Profit before income tax has been determined as follows:

	Consolidated		The Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Interest income				
Cash and liquid assets	642	1,297	642	1,297
Receivables from other financial institutions ¹	3,787	1,198	3,781	1,195
Held to maturity investments	4,568	8,961	4,568	8,961
Loans and advances to customers ²	79,749	63,570	79,749	63,570
Financial assets-available-for-sale	7,542	3,027	7,542	3,027
Interest rate swaps (interest income)	24,262	9,163	24,262	9,163
Interest rate swaps (movement in fair value of other derivatives)	-	42	-	42
Interest rate swaps (ineffective portion of hedged derivatives)	387	-	387	-
Interest rate swaps (movement in discontinued cash flow hedge reserve)	34	2,632	34	2,632
Total interest income	120,971	89,890	120,965	89,887
¹ Receivables from other financial institutions includes \$65,729 (\$2009: \$131,591) received from the Parent, Arab Bank plc and related parties.				
² Loans and advances to customers includes \$nil (2009: \$16,237) received from related parties.				
Interest expense				
Payables to other financial institutions ¹	15,839	1,432	15,841	1,439
Deposits ²	32,302	44,008	32,302	44,008
Debt securities issued	10,656	-	10,656	-
Subordinated debt ³	2,845	1,764	2,845	1,764
Interest rate swaps (interest expense)	26,044	11,627	26,044	11,627
Interest rate swaps (movement in fair value of other derivatives)	3	-	3	-
Interest rate swaps (ineffective portion of hedged derivatives)	-	517	-	517
Interest rate swaps (amortisation of cash flow hedge reserve)	450	1,065	450	1,065
Total interest expense	88,139	60,413	88,141	60,420
¹ Payables to other financial institutions includes \$666,268 (2009: \$184,659) paid to the Parent, Arab Bank plc and related parties.				
² Deposits includes \$17,519 (2009: \$4,765) paid to related parties.				
³ The subordinated debt interest of \$2,844,834 is paid to the Parent, Arab Bank plc.				
Net interest income	32,832	29,477	32,824	29,467
Non-interest income				
Commission and other fees	4,508	4,654	4,508	4,654
Foreign exchange earnings	1,591	1,136	1,591	1,136
Gain from financial assets at fair value through profit or loss – held for trading	-	102	-	102
Gain/(Loss) from financial assets at fair value through profit or loss - designated	956	(188)	956	(188)
Gain from financial assets-available-for-sale	-	767	-	767
Gain on sale of property, plant and equipment	21	-	21	-
Other	114	18	114	18
Total non-interest income	7,190	6,489	7,190	6,489
Operating income	40,022	35,966	40,014	35,956

4. Operating profit and expenses (continued)**Operating expenses**

	Consolidated		The Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Staff				
Salaries and wages	10,680	10,395	10,680	10,395
Provision of employee entitlements	(4)	24	(4)	24
Superannuation	1,056	1,113	1,056	1,113
Training and education	126	178	126	178
Other	911	859	911	859
	12,769	12,569	12,769	12,569
Occupancy				
Rent	1,698	1,731	1,698	1,731
Other	562	636	562	636
	2,260	2,367	2,260	2,367
Depreciation and amortisation				
Plant and equipment	110	182	110	182
Fixture and fittings	193	304	193	304
Amortisation of software	372	803	372	803
	675	1,289	675	1,289
Office expenses				
Marketing and communications	1,140	932	1,140	932
Business travel	343	320	343	320
Postage and stationery	514	398	514	398
Entertainment	235	129	235	129
Communications	279	334	279	334
Subscriptions	256	224	256	224
Other	350	483	350	483
	3,117	2,820	3,117	2,820
Other				
Information system expenses	1,629	2,488	1,629	2,488
Service and consultation fees	1,776	1,797	1,776	1,797
Net loss on sale of property, plant and equipment	-	176	-	176
Other	69	309	69	309
	3,474	4,770	3,474	4,770
Total operating expenses	22,295	23,815	22,295	23,815

5. Income tax**(a) Income tax expense****Recognised in the income statement**

	Note	Consolidated		The Company	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current tax expense					
Current year		1,458	2,632	1,455	2,629
Adjustment for prior year (under provision)		(77)	10	(81)	10
		1,381	2,642	1,374	2,639
Deferred tax expense					
Origination and reversal of temporary differences		931	(2,781)	931	(2,781)
Change in temporary differences		47	(9)	47	(9)
		978	(2,790)	978	(2,790)
Total income tax (credit)/expense in the Income Statements		2,359	(148)	2,352	(151)

Recognised in other comprehensive income

Financial assets – available-for-sale	23	207	(207)	207	(207)
Derivatives (hedging reserve)	23	253	347	253	347
		460	140	460	140

Reconciliation between tax expense and pre-tax accounting profit:

Profit/(loss) for the period		5,659	(405)	5,658	(412)
Total income tax expense		2,359	(148)	2,352	(151)
(Loss)/profit excluding income tax		8,018	(553)	8,010	(563)
Income tax using the Company's domestic tax rate of 30%		2,405	(166)	2,402	(169)
Non-deductible expenses		36	19	36	19
Under-provided in prior years		*(82)	(1)	*(86)	(1)
Current tax (credit)/expense		2,359	(148)	2,352	(151)

*\$93,000 relates to an additional claim for Research and Development tax concession for 2008, less \$11,000 to a prior year adjustment for temporary differences and Arab Australia Capital Markets Limited.

(b) Deferred tax assets and liabilities

Deferred tax assets arising from:					
Provision for employee benefits		214	465	214	465
Property, Plant and Equipment		648	682	648	682
Commission received in advance		431	393	431	393
Derivative liability		328	970	328	970
Unrealised exchange gains		14	73	14	73
Doubtful debts		3,591	3,815	3,591	3,815
Financial assets – available-for-sale		1	207	1	207
Other		209	147	209	147
Deferred tax assets		5,436	6,752	5,436	6,752
Derivative asset		(45)	(379)	(45)	(379)
Other		(2)	(6)	(2)	(6)
Total deferred tax liabilities		(47)	(385)	(47)	(385)
Net tax assets		5,389	6,367	5,389	6,367

(c) Movement in temporary differences during the year:

	Consolidated		The Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Balance as at 1 January	6,367	3,577	6,367	3,577
Provision for employee benefits	(251)	(31)	(251)	(31)
Property, plant and equipment	(34)	(64)	(34)	(64)
Commission received in advance	38	(153)	38	(153)
Unrealised exchange gains	(59)	66	(59)	66
Derivative liabilities*	(642)	(1,025)	(642)	(1,025)
Derivative assets*	334	304	334	304
Doubtful debts	(224)	3,449	(224)	3,449
Financial assets – available-for-sale	(206)	207	(206)	207
Other assets	62	35	62	35
Other liabilities	4	2	4	2
Balance as at 31 December	5,389	6,367	5,389	6,367

*\$878,000 (2009: \$(4,005,000)) of the movement in derivative assets and liabilities was recognised in other comprehensive income.

Unrecognised deferred tax assets

Capital losses	1,020	1,020	1,020	1,020
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The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of the above item because it is not probable that future taxable profit (on capital account) will be available against which the Group can utilise the benefits.

6. Receivables from other financial institutions

Australia				
Local banks	102,589	19,954	102,342	19,879
Overseas				
Parent entity	3,779	13,869	3,779	13,869
Related parties	13	12	13	12
Foreign banks	19,442	8,019	19,442	8,019
	125,823	41,854	125,576	41,779

All receivables from other financial institutions are current and due within one year.

7. Held to maturity investments

Bank acceptances	69,367	77,304	69,367	77,304
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A maturity analysis of held to maturity investments is shown in note 26 (c) – Risk management, liquidity risk.

All held to maturity investments are current and due within one year.

8. Derivative assets and liabilities

Each derivative is classified as held for “hedging”, or as “other” derivatives. Derivatives classified as “hedging” are derivative transactions entered into in order to manage the risks arising from non-traded assets, liabilities and commitments in Australia. “Other” derivatives include trading derivatives and derivatives for risk management purposes not designated into a hedge relationship.

Derivatives transacted for hedging purposes

The Company enters into derivative transactions which are designated and qualify as cash flow hedges, for recognised assets, liabilities or forecast transactions. The Company adopted hedge accounting on 1 July 2008.

Derivatives for risk management

The Company enters into interest rate swaps for risk management. These derivatives are not designated as cash flow hedges. The movement in fair value of these derivatives is recognised in the income statement.

Trading derivatives

The Company enters into interest rate swaps and foreign exchange agreements for the purpose of trading.

Cash flow hedges

The Company uses interest rate swaps to protect against changes in cash flows of certain variable rate deposits and lending. For the year ended 31 December 2010 the Company recognised a profit/(loss) of \$386,566 (2009: \$(517,203)), which represents the ineffective portion of the cash flow hedges.

The effective portion of gains or losses on derivative contracts designated as cash flow hedges are initially recorded in the Cash Flow Hedge Reserve but are reclassified to current period earnings when the hedged cash flow occurs, refer note 3 (f).

For the year ended 31 December 2010 the Company recognised a loss of \$449,794 (2009: \$1,065,276) on the amortisation of cash flow hedge reserves. This represents the amortisation of the effective portion of interest rate swaps upon designation as cash flow hedges after the deal date which was previously recognised in the income statement, refer note 3 (f).

During the year ended 31 December 2010 the Company did not sell any swaps designated in cash flow hedge relationships. The Company recognised a profit of \$34,080 (2009: \$2,631,948) relating to swaps sold which had been designated in cash flow hedge relationships.

	Notional value	2010 Fair value asset	Fair value liability	Notional value	2009 Fair value asset	Fair value liability
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Derivatives designated as cash flow hedges	348,000	147	(1,093)	438,700	1,107	(3,159)
Total derivatives assets/(liabilities) held for hedging	348,000	147	(1,093)	438,700	1,107	(3,159)
Other derivatives	40,000	2	-	100,000	156	(72)
Total derivative assets/(liabilities)	388,000	149	(1,093)	538,700	1,263	(3,231)

9. Loans and advances to customers, net

	Consolidated		The Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Housing loans	143,706	131,189	143,706	131,189
Commercial loans*	756,927	705,790	756,927	705,790
Overdrafts	63,123	47,058	63,123	47,058
Bills discounted	4,331	16,582	4,331	16,582
Gross loans and advances to customers	968,087	900,619	968,087	900,619
Add/(Less):				
Provisions for impairment (Note 10)				
Collective provision	(971)	(875)	(971)	(875)
Specific provision	(10,999)	(11,840)	(10,999)	(11,840)
Provisions for impairment	(11,970)	(12,715)	(11,970)	(12,715)
Net loans and advances to customers	956,117	887,904	956,117	887,904
Current	369,434	345,010	369,434	345,010
Non-Current	586,683	542,894	586,683	542,894
	956,117	887,904	956,117	887,904

*This category includes capitalised lending income of \$1,348,460 (2009: \$1,308,541).

10. Provisions for impairment**Specific provisions**

Opening balance	11,840	821	11,840	821
Specific loan impairment charges/(recoveries)**	*9,613	*12,228	*9,613	*12,228
Translation adjustment	(874)	146	(874)	146
Bad debt write-offs	(9,580)	(1,355)	(9,580)	(1,355)
Closing balance	10,999	11,840	10,999	11,840
Collective provisions				
Opening balance	875	399	875	399
Collective loan impairment charges	*96	*476	*96	*476
Closing balance	971	875	971	875
Total provisions for impairment	11,970	12,715	11,970	12,715

Collective provision is calculated in accordance with Note 3 (g).

*Total charge for debt provisions is \$9,709k (2009: \$12,704k). During 2009 ABAL made a provision for 100% of a debt to The International Banking Corporation, a Bahraini Bank. The charge to the income statement in 2009 was for principal and interest of USD \$9,774k at spot exchange rates equalling AUD \$10,878k. In 2010 90% of the balance was written off and the remaining 10% was recovered through a sale to an external party at the rate of 10 cents per \$1 of debt.

** Included in interest income is \$1,286k (2009: \$131k) relating to income on impaired loans and advances to customers. This is fully provided for in the specific provision.

11. Financial assets – available-for-sale

The Group holds bonds and floating rate notes which it classifies as available-for-sale. The asset is initially recognised at cost and changes in fair value other than impairment losses subsequent to purchase are recognised directly in other comprehensive income. Impairment losses are recognised in profit or loss. No impairment loss was incurred in the current or prior year.

Investment in bonds	31,946	71,900	31,684	71,900
Floating rate notes	110,222	86,015	110,484	86,015
Total financial assets – available-for-sale	142,168	157,915	142,168	157,915
Current	80,537	96,589	80,537	96,589
Non-Current	61,631	61,326	61,631	61,326
	142,168	157,915	142,168	157,915

12. Shares in controlled entity

Details of the controlled entity are:

	Country of Incorporation	Interest %	Book value of investment		Contribution to consolidated profit/(loss)	
			2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Arab Australia Capital Markets Limited	Australia	100	70	70	1	7

Total assets: \$248,706 (2009: \$235,489), total liabilities: \$4,852 (2009: \$nil).

Arab Australia Capital Markets Limited has not traded or had any employees during the year.

13. Plant and equipment

	Consolidated			The Company		
	Plant & equipment \$'000	Fixtures & fittings \$'000	Total \$'000	Plant & equipment \$'000	Fixtures & fittings \$'000	Total \$'000
Cost						
Balance at 1 January 2009	2,947	6,382	9,329	2,947	6,382	9,329
Acquisitions	14	55	69	14	55	69
Disposals	(47)	(700)	(747)	(47)	(700)	(747)
Balance at 31 December 2009	2,914	5,737	8,651	2,914	5,737	8,651
Balance at 1 January 2010	2,914	5,737	8,651	2,914	5,737	8,651
Acquisitions	183	171	354	183	171	354
Disposals	(172)	-	(172)	(172)	-	(172)
Balance at 31 December 2010	2,925	5,908	8,833	2,925	5,908	8,833
Accumulated depreciation						
Balance at 1 January 2009	2,598	5,293	7,891	2,598	5,293	7,891
Depreciation for the year	182	304	486	182	304	486
Disposals	(41)	(526)	(567)	(41)	(526)	(567)
Balance at 31 December 2009	2,739	5,071	7,810	2,739	5,071	7,810
Balance at 1 January 2010	2,739	5,071	7,810	2,739	5,071	7,810
Depreciation for the year	110	193	303	110	193	303
Disposals	(172)	-	(172)	(172)	-	(172)
Balance at 31 December 2010	2,677	5,264	7,941	2,677	5,264	7,941
Carrying amount						
31 December 2009	175	666	841	175	666	841
31 December 2010	248	644	892	248	644	892

Assets not yet available for use are held in other assets until they can be capitalised. Refer to note 15 for additional information.

14. Intangible assets

	Consolidated		The Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cost				
Opening balance	6,032	5,548	6,032	5,548
Acquisitions	331	484	331	484
Disposals	-	-	-	-
Closing balance	6,363	6,032	6,363	6,032
Amortisation				
Opening balance	4,958	4,155	4,958	4,155
Amortisation for period	372	803	372	803
Disposals	-	-	-	-
Closing balance	5,330	4,958	5,330	4,958
Carrying amounts	1,033	1,074	1,033	1,074

Intangible assets comprise computer software only. Costs relating to current software implementation projects not yet available for use are represented in other assets (note 15).

15. Other assets

Interest receivable	13	933	13	933
Expenses paid in advance	629	595	629	595
Other, including software implementation project costs*	2,638	989	2,656	983
	**3,280	2,517	**3,298	2,511

*Included in other assets is \$504,201 (2009: \$327,247) of assets which will be capitalised once the asset is available for use. These costs relate to software implementation projects in progress.

**All other assets are current and due within one year.

16. Payables to other financial institutions

Australia – local banks	231,176	217,807	231,176	217,807
Overseas				
Parent entity	17,500	55,907	17,500	55,907
Related parties	411	417	411	417
Foreign banks	1,255	1,811	1,255	1,811
	250,342	275,942	250,342	275,942

All payables to other financial institutions are current and due within one year, except for \$1,001k which is non-current and due within 3 years.

17. Deposits

Current	12,289	16,930	12,289	16,930
Savings	2,657	3,197	2,657	3,197
At call	344,145	282,201	344,145	282,201
Term	352,596	395,586	352,596	395,738
Negotiable certificates of deposit	3,001	77,697	3,001	77,697
	714,688	775,611	714,688	775,763
Current	712,115	772,413	712,115	772,565
Non-Current	2,573	3,198	2,573	3,198
	714,688	775,611	714,688	775,763

18. Debt securities issued

	<i>Consolidated</i>		<i>The Company</i>	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Debt securities issued	203,084	-	203,084	-

On 12th February 2010 the Company issued \$200m of medium term notes with a maturity of 3 years.

19. Provisions

	<i>Long service leave</i>	<i>Annual leave</i>	<i>Other provisions</i>	<i>Total</i>
	\$'000	\$'000	\$'000	\$'000
Balance as at 1 January 2010	422	242	-	664
Provisions made during the year	96	261	-	357
Provisions used during the year	(100)	(18)	-	(118)
Balance as at 31 December 2010	418	485	-	903

20. Other liabilities

	<i>Consolidated</i>		<i>The Company</i>	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Interest payable	14	1,405	14	1,405
Unearned income	89	137	89	137
Accrued expenses	1,229	1,803	1,229	1,803
Other	2,746	988	2,746	982
	*4,078	4,333	*4,078	4,327

*All other liabilities are current and due within one year.

21. Subordinated debt

50,009	43,764	50,009	43,764
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Subordinated debt facilities were entered into with Arab Bank plc in two tranches, the first in 2002 for \$25m and the second in 2009 also for \$25million. The second tranche was issued in four equal instalments throughout 2009, with the last instalment of \$6.25m received in 2010. The rights of the lender are subordinated to all other unsubordinated creditors. The debt is a perpetual, non redeemable facility whereby the company has contractual obligations to pay interest at market rates on a monthly basis to the holder of the instrument, Arab Bank plc.

22. Share Capital

55,000,000 ordinary shares fully paid	55,000	55,000	55,000	55,000
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At 31 December 2010 the authorised share capital comprised 55 million ordinary shares. All issued shares are fully paid and owned by the parent company, Arab Bank plc who is entitled to receive dividends if declared. No dividend has been paid or declared since the start of the financial year (2009: \$nil).

23. Reserves**Hedging reserve**

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

	<i>Consolidated</i>		<i>The Company</i>	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Opening balance	(1,099)	(1,908)	(1,099)	(1,908)
(Amortisation)/Gains of/on discontinued cash flow hedging instruments	(34)	(2,849)	(34)	(2,849)
Deferred tax on discontinued cash flow hedging instruments	10	854	10	854
Effective portion of changes in fair value of cash flow hedges	878	4,005	878	4,005
Deferred tax on cash flow hedging instruments	(263)	(1,201)	(263)	(1,201)
Closing balance	(508)	(1,099)	(508)	(1,099)

Fair value reserve

The fair value reserve includes the cumulative net change in fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised.

Opening balance	(484)	-	(484)	-
Net change in fair value of available-for-sale investments	690	(691)	690	(691)
Deferred tax on fair value reserve	(207)	207	(207)	207
Closing balance	(1)	(484)	(1)	(484)

General Reserve for Credit Losses

In accordance with APRA's regulatory requirements this reserve reflects 1% of risk-weighted assets (including both on and off balance sheet exposures) and has been appropriated from retained earnings to a non-distributable general reserve for credit losses.

Opening balance	9,596	8,736	9,596	8,736
Transfer to general reserve for credit losses	960	860	960	860
Closing balance	10,556	9,596	10,556	9,596
Total reserves	10,047	8,013	10,047	8,013

24. Retained earnings

Opening balance	44,394	45,659	44,240	45,512
Transfers to general reserve for credit loss	(960)	(860)	(960)	(860)
Net (loss)/profit	5,659	(405)	5,658	(412)
Closing balance	49,093	44,394	48,938	44,240

25. Fair value of financial instruments

The fair value of financial assets and liabilities are amounts for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction. Quoted market prices are used to determine fair value where an active market exists. For financial instruments where there are no readily available quoted market prices, valuation methods based on market conditions are used.

	2010 Consolidated		2009 Consolidated	
	Carrying value \$'000	Fair value \$'000	Carrying value \$'000	Fair value \$'000
Assets				
Cash and cash equivalents	9,809	9,809	11,358	11,358
Receivables from other financial institutions	125,823	125,823	41,854	41,854
Held to maturity investments	69,367	69,367	77,304	76,411
Financial assets at fair value through profit or loss – designated	24,617	24,617	24,227	24,227
Loans, advances and other receivables	956,117	959,793	887,904	878,309
Financial assets – available-for-sale	142,168	142,168	157,915	157,915
Derivative asset	149	149	1,263	1,263
Liabilities				
Payables to other financial institutions	250,342	247,680	275,942	275,987
Deposits	714,688	708,969	775,611	771,079
Debt securities issued	203,084	203,084	-	-
Subordinated debt	50,009	50,009	43,764	43,764
Derivative liabilities	1,093	1,093	3,231	3,231

Cash and liquid assets

The carrying values of cash and liquid assets and receivables from other financial institutions approximate their fair value as they are short term in nature or are receivable on demand.

Held-to-maturity investments

The fair values for held-to-maturity investments are determined using quoted market prices or dealer quotes for the same or similar securities or where a market price is not readily available, estimated discount values of future cash flows.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried at fair value determined using quoted market prices.

Derivative assets and liabilities

The fair value of derivative contracts (interest rate swaps) were obtained from observable market data or discounted cash flow models as appropriate. The fair value of these instruments is disclosed in Note 8.

Loans, advances and other receivables

The fair value of impaired loans was calculated by discounting expected cash flows using a rate that includes a premium for the uncertainty of the flows.

For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of fair value. The fair value for fixed rate loans was calculated by utilizing discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the maturity of the loans. The discount rates applied were based on the current benchmark rate, including an add-on of the existing credit margin of the portfolio, offered for the average remaining term of the portfolio.

These rates vary based on the term of the loan offered and interest rate environment during the period.

The carrying value of loans, advances and other receivables is net of accumulated collective and individually assessed provisions for impairment.

25. Fair value of financial instruments (continued)**Financial assets – available-for-sale**

Financial assets – available-for-sale are carried at fair value using observable market data. Changes in fair value subsequent to initial recognition are recognised in other comprehensive income, other than impairment losses which are recognised through profit or loss.

Payables to other financial institutions

The carrying value of payables due to other financial institutions and bank acceptances approximate their fair value as they are short term in nature and reprice frequently.

Deposits

The fair value of non-interest bearing, call and variable rate deposits, and fixed rate deposits repricing within six months, is the carrying value as at year-end. Discounted cash flow models based upon current market rates for debt with similar characteristics and maturities, were used to calculate the fair value of other term deposits.

Subordinated debt

The fair values of subordinated debt issues were calculated based on discounted cash flows, utilising a yield curve appropriate to the expected remaining maturity of the instrument.

Financial liabilities through profit or loss

This category includes interest payable, where the carrying amount is considered to be a reasonable estimate of fair value.

For liabilities that are long term, fair values have been estimated using the rates currently offered for similar liabilities with remaining maturities.

Other provisions including provision for employee entitlements and income tax liability are not considered financial instruments.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method.

The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 December 2010				
Derivative assets	-	149	-	149
Financial assets at fair value through profit or loss – designated	-	24,617	-	24,617
Financial assets – available for sale	-	142,168	-	142,168
	-	166,934	-	166,934
Derivative liabilities	-	(1,093)	-	(1,093)
	-	165,841	-	165,841
31 December 2009				
Derivative assets	-	1,263	-	1,263
Financial assets at fair value through profit or loss – designated	-	24,227	-	24,227
Financial assets – available for sale	-	157,915	-	157,915
	-	183,405	-	183,405
Derivative liabilities	-	(3,231)	-	(3,231)
	-	180,174	-	180,174

26. Risk management**(a) Introduction and overview**

The company is exposed to a number of risks, which it manages at different organisational levels. The main categories of risk are:

- Credit risk: The risk that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms.
- Liquidity risk: The risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.
- Market risk: The risk that changes in market prices, such as interest rate and foreign exchange rates will affect the Group's income or the value of holdings.
- Interest rate risk: The risk of loss from fluctuations in the future cash flows of financial instrument fair values due to a change in market interest rates.
- Operational risks: The risks of losses owing to deficient or erroneous internal procedures, human or system errors or external events.

This note presents information about the Group's exposure to each of the above risks, the objectives, policies and processes for measuring and managing each of these risks, and management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Asset and Liability (ALCO), Credit and Operational Risk Committees, which are responsible for developing and monitoring the risk management policies in their specified areas. All Board committees report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group and to work with the Board and its committees to set appropriate risk limits and controls, and to designate the monitoring of risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

Credit risk arises principally from the Group's loans and advances to customers and banks and investment securities. Approval for loans and advances to customers requires a recommender and approver and for larger balances two "one up" approval checks are completed.

The portfolio is closely monitored by the Lending officers and any arrears are reviewed and managed on a continual basis by the Recovery Manager within the Credit department.

The Credit department reports on the status of all balances to the Global Credit Department of the parent, Arab Bank plc on a monthly basis in addition to regular reporting to key management of the Bank and the Executive Credit Committee.

The Board of Directors has delegated responsibility for the management of credit risk to the Board Credit Committee.

The Executive Credit Committee reports to the Board Credit Committee.

26. Risk management (continued)**(b) Credit risk (continued)**

The below table presents the maximum exposure to credit risk of balance sheet items (excluding trading assets) combined with the credit quality for each class of financial asset as at the reporting date.

Items categorised in the following table as watch list are subject to a full facility review every 6 months.

	<i>Loans and advances to customers</i>		<i>Loans and advances to banks</i>		<i>Investment securities</i>	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Carrying amount	956,117	887,904	125,823	41,854	236,152	259,446
Individually impaired comprises						
Individually impaired	20,147	11,840	-	-	-	-
Provision for impaired	(10,999)	(11,840)	-	-	-	-
Grade H: Non Performing	9,148	-	-	-	-	-
Past due but not impaired						
Grade A - E: Low risk	20,249	8,071	-	-	-	-
Grade F - H: Watchlist	19,962	31,907	-	-	-	-
Carrying Amount	40,211	39,978	-	-	-	-
Past due comprises						
30-60 days	17,474	5,893	-	-	-	-
60-90 days	4,213	5,451	-	-	-	-
90-120 days	2,577	2,081	-	-	-	-
Over 120 days	15,947	26,553	-	-	-	-
Carrying Amount	40,211	39,978	-	-	-	-
Neither past due nor impaired						
Grade A - E: Low risk	862,381	818,898	125,823	41,854	236,152	259,446
Grade F - H: Watch list	45,348	29,903	-	-	-	-
Carrying Amount	957,088	888,779	125,823	41,854	236,152	259,446
Less collective provision	(971)	(875)	-	-	-	-
Total carrying amount	956,117	887,904	125,823	41,854	236,152	259,446

Impaired loans

Impaired loans are loans for which the Company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. Refer to note 3 (g) for further details taken into consideration when assessing for evidence of impairment.

Provisions for impairment

The Company creates specific provisions that represent its estimate of incurred losses on individual balances. This is assessed in accordance with the process detailed in note 3 (g). The Company considers the value of security held and any other assets held by the borrower in assessing the estimated loss.

26. Risk management (continued)**(b) Credit risk (continued)**

The Company also creates a collective provision for future anticipated losses based on the current portfolio. The collective provision is calculated in accordance with note 3 (g).

Past due but not impaired loans

Past due but not impaired loans are balances where the contractual interest or principal payments are past due, but the Company holds adequate security, or collateral, and the stage of collection is sufficient for the loan not to be impaired.

Loans with renegotiated terms

During the year the Company renegotiated the terms of \$nil (2009: \$7,333,464) of loans that would otherwise be past due or impaired.

Write off policy

Loan balance write offs are approved when they are deemed not collectible. This determination is reached following a review of the value of security held, any other assets held by the borrower and the individual financial position of the borrower. Large balances are subject to a full review and require the approval of the Executive Credit Committee. Small balances are investigated by the lending officer and approved by credit for write off.

Collateral

The Company's loan portfolio is well secured. Collateral is hedged against loans and advances to customers in the form of mortgage interests over property, other registered security over assets and guarantees. The fair value of the collateral is assessed at the time of borrowing and is reassessed when the loan or advance become impaired.

An estimate of the fair value of collateral and other security enhancements held against impaired loans and advances to customers is shown below:

<i>Loans and advances</i>	
2010	2009
\$'000	\$'000

Against individually impaired

Property	11,430	85
Other	-	-

Against past due but not impaired

Property	75,288	55,117
Other	-	-

The fair value of financial assets accepted as collateral in the event of customer default and subsequently sold during the year is \$2,216,000 (2009: \$3,293,000).

26. Risk management (continued)**(b) Credit risk (continued)**

The Company monitors concentrations of credit risk by industry. An analysis of concentration of credit risk at the reporting date is shown below.

	<i>Loans and advances</i>	
	2010	2009
	\$'000	\$'000
Carrying amount	956,117	887,904
Concentration by economic sector:		
Construction	378,516	206,791
Cultural, recreational, personal and other services	4,411	59,628
Finance and insurance	24,238	61,220
Health and community services	26,193	30,022
Manufacturing	35,403	26,523
Property and business services	182,754	249,713
Retail and wholesale trade	121,596	133,499
Transport and storage	87,765	80,455
Other commercial and industrial	107,211	52,768
Gross loans and advances to customers	968,087	900,619
Collective provisions	(971)	(875)
Specific provisions	(10,999)	(11,840)
Net loans and advances to customers	956,117	887,904

The above analysis complies with the Australian and New Zealand standard industrial classification codes.

Derivative exposures

The Company held derivative assets of \$148,794 as at 31 December 2010 (2009: \$1,262,964). All derivative assets held were with bank and financial institution counterparties.

The Company's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Company mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Transactions and trades are conducted within the counterparty and transaction limits monitored and approved by the Executive Credit Committee. Significant limits are subject to approval by the Board Credit Committee. All limits are endorsed by the Group's Financial Institution Division.

(c) Liquidity risk

Treasury maintain information about the projected cash flows from future business to ensure that sufficient liquidity is maintained in order for the Bank to meet its obligations. In addition the Bank and its parent company Arab Bank Plc have adopted a more conservative approach than required by the local regulatory authority (APRA) to ensure that the bank continues to meet its obligations through the current market uncertainties.

The bank maintains a portfolio of short term liquid assets, largely made up of high quality liquid investments including investment securities and bonds. The bank also maintains loans and advances to banks and other inter-bank facilities for liquidity purposes.

The liquidity position is monitored and reported daily to Treasury, key management of the business and the Global Treasury department of the parent, Arab Bank plc. In addition the liquidity position is reported to APRA and ALCO on a regular basis.

26. Risk management (continued)**(c) Liquidity risk (continued)**

Following the current financial downturn in global financial markets and systemic liquidity concerns in the banking system, the Bank enhanced its liquidity reporting and financial analysis and increased the frequency of its reporting.

Regular liquidity stress testing is conducted under a variety of scenarios covering both predictable and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. A summary report including any exceptions and remedial action taken is submitted regularly to ALCO.

The Banks' liquidity remains strong and at 31 December 2010 our liquidity ratio exceeded APRA's minimum requirements and satisfied Arab Bank plc requirements.

The table below for 2010 and 2009 breaks down the financial assets and liabilities of the Group by contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis. For example deposits from customers are expected to remain a stable or increase in balance.

Liquidity risk

\$'000's	Carrying Amount	Less than 1 month	1-3 months	3 months to 1 year	1-3 years	More than 3 years	Not tied to maturity
31 December 2010							
Assets							
Cash and liquid assets	9,809	-	-	-	-	-	9,809
Receivables from other financial institutions	125,823	28,175	85,401	12,247	-	-	-
Held to maturity investments	69,367	20,933	38,609	9,825	-	-	-
Financial assets at fair value through profit or loss - designated	24,617	-	-	-	-	24,617	-
Loans and advances to customers, net	956,117	109,593	82,652	177,189	195,426	390,120	1,137
Financial assets available-for-sale	142,168	-	4,334	76,103	28,421	33,310	-
Derivatives	149	11	-	78	-	60	-
Total financial assets	1,328,050	158,712	210,996	275,442	223,847	448,107	10,946
Liabilities							
Payables to other financial institutions	250,342	107,724	79,946	61,671	1,001	-	-
Deposits	714,688	60,838	190,138	101,972	1,401	1,172	359,167
Debt securities issued	203,084	-	-	2,010	201,074	-	-
Derivatives	1,093	6	29	201	789	68	-
Subordinated debt	50,009	-	-	-	-	-	50,009
Total financial liabilities	1,219,216	168,568	270,113	165,854	204,265	1,240	409,176

26. Risk management (continued)**(c) Liquidity risk (continued)****Liquidity risk**

\$'000's	Carrying Amount	Less than 1 month	1-3 months	3 months to 1 year	1-3 years	More than 3 years	Not tied to maturity
31 December 2009							
Assets							
Cash and liquid assets	11,358	-	-	-	-	-	11,358
Receivables from other financial institutions	41,854	13,869	5,114	15,121	-	-	7,750
Held to maturity investments	77,304	5,046	72,258	-	-	-	-
Financial assets at fair value through profit or loss - designated	24,227	-	-	-	-	24,227	-
Loans and advances to customers, net	887,904	55,658	54,048	235,304	163,980	331,626	47,288
Financial assets available-for-sale	157,915	2,968	58,586	35,035	28,206	33,120	-
Derivatives	1,263	-	-	-	1,131	132	-
Total financial assets	1,201,825	77,541	190,006	285,460	193,317	389,105	66,396
Liabilities							
Payables to other financial institutions	275,942	2,241	212,513	5,282	-	-	55,906
Deposits	775,611	132,998	280,576	59,507	2,257	941	299,332
Derivatives	3,231	-	-	624	2,289	318	-
Subordinated debt	43,764	-	-	-	-	-	43,764
Total financial liabilities	1,098,548	135,239	493,089	65,413	4,546	1,259	399,002

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Company separates exposure to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from transactions entered into in order to profit from market movements. Residual risk arises from facilitating customer transactions and actively extending these positions for trading purposes.

Non-trading portfolios arise primarily from the interest rate management of the Group's retail and commercial banking assets and liabilities.

All foreign exchange risk within the Group is managed centrally by Treasury. The foreign exchange position is treated as part of the Company's trading portfolios for risk management purposes.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO). Treasury is responsible for the development of detailed risk management policies (subject to the review and approval of ALCO and the Board) and for the day-to-day operations.

The management of market risk is principally undertaken using risk limits approved by ALCO and the Board. Limits are set for portfolios, products and risk types, with market liquidity being a key factor in determining the level of limits set.

26. Risk management (continued)**(d) Market risk (continued)**

The primary form of interest rate risk for the Bank is considered to be the repricing risk, which arises from the timing differences in the maturity (for fixed rate) and repricing data (for variable rate) assets and liabilities. This is monitored and managed using the Basis point present value (BPV) methodology and is reported to Treasury on a daily basis, Global Treasury department of the parent, Arab Bank plc weekly and ALCO monthly.

The Basis Point Valuation (BPV) reporting measures the impact of a move in interest rates by 1% and quantifies the expected financial impact to the Bank. The Board of Directors assigns a limit, endorsed by the Global Treasury department of the parent, Arab Bank plc for an acceptable level of financial impact in this scenario. Any breaches of limits are notified immediately to the key management and ALCO.

An increase in the interest rate of 500 basis points above the average interest rate at 31 December 2010 would result in additional income of \$2,627,000 and a direct increase in Shareholders' equity of \$3,689,000 (2009: Income \$5,354,000 Shareholders equity \$4,943,000).

Non-trading portfolios are exposed to the risk of loss from fluctuations in the fair value of interest rate swaps due to a change in market interest rates unless held to maturity.

The following tables represents the earlier of contractual repricing or maturity date as at 31 December 2010 and the prior year. The table is illustrative only and is based on simplified scenarios. Actions that would have been taken to mitigate the interest rate risk are not incorporated. In reality, the Group seeks to proactively change the interest rate risk profile to minimise losses and optimise net revenues. This analysis also makes simplifying projections, including that all positions run to maturity.

Interest rate risk

<i>\$'000's</i>	<i>Carrying Amount</i>	<i>Less than 1 month</i>	<i>1-3 months</i>	<i>3 months to 1 year</i>	<i>1-3 years</i>	<i>More than 3 years</i>	<i>Not tied to maturity</i>
31 December 2010							
Cash and cash equivalents	9,809	-	-	-	-	-	9,809
Receivables from other financial institutions	125,823	28,175	85,401	12,247	-	-	-
Held to maturity investments	69,367	20,933	38,609	9,825	-	-	-
Financial assets at fair value through profit or loss - designated	24,617	-	-	-	-	24,617	-
Loans and advances to customers, net	956,117	713,917	25,269	71,428	105,126	39,641	736
Financial assets available-for-sale	142,168	110,221	4,334	20,474	-	7,139	-
	1,327,901	873,246	153,613	113,974	105,126	71,397	10,545
Payables to other financial institutions	250,342	107,724	79,946	61,671	1,001	-	-
Deposits	714,688	405,790	190,138	101,972	1,201	1,172	14,415
Debt securities issued	203,084	-	-	2,010	201,074	-	-
Subordinated debt	50,009	-	-	-	-	-	50,009
	1,218,123	513,514	270,084	165,653	203,276	1,172	64,424
Effect of derivatives held for risk management	-	(230,000)	(7,000)	(49,000)	(48,000)	(14,000)	-
	109,778	129,732	(123,471)	(100,679)	(146,150)	56,225	(53,879)

26. Risk management (continued)**(d) Market risk (continued)****Interest rate risk (continued)****Interest rate risk**

<i>\$'000's</i>	<i>Carrying Amount</i>	<i>Less than 1 month</i>	<i>1-3 months</i>	<i>3 months to 1 year</i>	<i>1-3 years</i>	<i>More than 3 years</i>	<i>Not tied to maturity</i>
31 December 2009							
Cash and cash equivalents	11,358	-	-	-	-	-	11,358
Receivables from other financial institutions	41,854	13,869	5,114	15,121	-	-	7,750
Held to maturity investments	77,304	5,046	72,258	-	-	-	-
Financial assets at fair value through profit or loss - designated	24,227	-	-	-	-	24,227	-
Loans and advances to customers, net	887,904	664,130	23,228	136,901	55,488	8,157	-
Financial assets available-for-sale	157,915	88,982	42,401	19,480	-	7,052	-
	1,200,562	772,027	143,001	171,502	55,488	39,436	19,108
Payables to other financial institutions	275,942	2,241	212,513	5,282	-	-	55,906
Deposits	775,611	369,762	280,576	57,003	2,171	941	65,158
Subordinated debt	43,764	-	-	-	-	-	43,764
	1,095,317	372,003	493,089	62,285	2,171	941	164,828
Effect of derivatives held for risk management	-	(1,000)	-	(164,700)	(82,000)	(5,000)	-
	105,245	399,024	(350,088)	(55,483)	(28,683)	33,495	(145,720)

Foreign Exchange risk - trading portfolios

The principal risk to which trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows of fair values of financial instruments because of a change in the foreign exchange rates. The Company trades predominately spot positions and some forward positions. A valuation of the trading book is undertaken on a daily basis and breaches of limits are notified to ALCO.

Sensitivity analysis

The sensitivity analysis shows the effect on the Income Statement if there was a movement of 20% in foreign exchange rates from the rates at the reporting date.

	<i>Increase of 20%</i>	<i>Decrease of 20%</i>
	<i>\$</i>	<i>\$</i>
31 December 2010	110,720	166,081
31 December 2009	4,892	5,407

The foreign currency sensitivities set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the effect of the pro forma movements in foreign exchange rates and the Group's current foreign exchange risk profile. The projection above also assumes that foreign exchange rates all move by the same amount and, therefore, do not reflect the potential impact of some rates changing whilst others remain unchanged. This effect does not incorporate actions that would have been taken to mitigate the impact of this foreign exchange risk. In reality, the Group seeks to proactively change the foreign exchange risk profile to minimise losses and optimise net revenues.

26. Risk management (continued)**(e) Operational risk**

All business entities are subject to risk from the general business environment. Possible causes of risk are the Group's processes, personnel, technology and infrastructure or external factors such as legal and regulatory requirements.

The Group aims to manage this risk in a cost effective manner which does not restrict initiative or creativity. The operational risks of the Group and compensating controls are monitored by the Operational Risk Committee which meets on a quarterly basis.

All incidents which resulted or may have resulted in a financial loss to the Group (excluding minor office errors) are recorded in the incident management system and reported to the Operational Risk Committee. If the loss is significant (over \$10,000) key management and members of the Operational Risk Committee are notified immediately.

The Group requires a minimum level of controls for all departments and compliance is supported by periodic reviews undertaken by Internal Audit. A summary of testing and recommendations for improving controls is submitted to the manager of the business unit, senior management of the Group and the Board Audit, Risk and Compliance Committee.

Controls required include:

- Requirement for appropriate segregation of duties, including independent authorisation of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the reporting of operational losses and proposed remedial action
- Development of business continuity and disaster recovery contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective

(f) Capital management**Regulatory capital**

The Company's lead regulator, Australian Prudential Regulation Authority (APRA) sets and monitors capital requirements for the Group.

In implementing current capital requirements APRA requires the Group to maintain a prescribed ratio of total capital to risk weighted assets. The risk weighting used for assets are as prescribed by APRA. The Group and the parent, Arab Bank plc policy is to maintain a capital adequacy higher than required by the regulator. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group's regulatory capital is analysed into two tiers:

Tier 1 capital, which includes ordinary share capital, retained earnings and any other regulatory adjustments related to items that are included in equity but are treated differently for capital adequacy purposes.

Tier 2 capital, which includes qualifying subordinated liabilities and the general reserve for credit losses.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of the capital base. There are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation.

The Group has complied with all external imposed capital requirements throughout the period.

There have been no material changes to the Group's management of capital during the period.

26. Risk management (continued)**(f) Capital management (continued)**

The Group's regulatory capital position at 31 December was as follows:

	2010 \$'000	2009 \$'000
Tier 1 capital		
Ordinary share capital	55,000	55,000
Retained earnings	48,584	42,811
Less intangible assets	(5,911)	(6,274)
Total	97,673	91,537
Tier 2 capital		
General reserve for credit losses	10,556	9,596
Qualifying subordinated liabilities	50,009	43,764
Total	60,565	53,360
Total regulatory capital	158,238	144,897
Risk-weighted assets	1,054,474	959,617
Capital ratios		
Total regulatory capital expressed as a percentage of risk weighted assets	15.00%	15.10%
Total tier 1 capital expressed as a percentage of risk-weighted assets	9.26%	9.54%

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

27. Commitments for expenditure**Operating leases**

	<i>Consolidated</i>		<i>The Company</i>	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Future operating lease rentals not provided for and payable:				
Not later than one year	1,728	2,009	1,728	2,009
Later than one year but not later than two years	1,285	1,626	1,285	1,626
Later than two years but not later than five years	2,578	3,378	2,578	3,378
Later than five years	-	765	-	765
	5,591	7,778	5,591	7,778

The consolidated entity leases branches, head office building, plant and equipment.

During the financial year ended 31 December 2010 \$1,954,804 was recognised as an expense in the income statement in respect of operating leases (2009: \$2,387,406).

28. Auditors' remuneration

	<i>Consolidated</i>		<i>The Company</i>	
	2010 \$	2009 \$	2010 \$	2009 \$
Audit services				
Audit of the financial report	185,392	177,200	185,392	177,200
Other regulatory audit services	47,339	42,800	47,339	42,800
	232,731	220,000	232,731	220,000
Non-audit services				
Taxation services	84,068	36,750	84,068	36,750
Other services	28,007	19,500	28,007	19,500
	112,075	56,250	112,075	56,250
	344,806	276,250	344,806	276,250

During the year, KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board Audit Committee has considered the non-audit services provided during the year by KPMG and is satisfied that the provision of these services is compatible with, and did not compromise; the auditor independence requirements of the Corporations Act 2001 and the level of fees were compatible with maintaining auditors' independence.

29. Related parties

In addition to their salaries, the consolidated entity also provides non-cash benefits to directors and executive officers, and contributes to a superannuation fund on their behalf.

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly, including any Director of the entity. Key management personnel of Arab Bank Australia Limited and its controlled entity are:

His Excellency, Samir F Kawar	Chairman and Non Executive Independent Director
Mr Geoffrey C E Wild AM	Deputy Chairman and Non Executive Independent Director
Mr Eun-Young Kim	Non Executive Director
Mr Ian G MacDonald	Non Executive Independent Director
Mr Joseph Risk**	Managing Director, formerly Chief Banking Officer
Mr Leslie Taylor AM	Non Executive Independent Director
Mr Samer S H Al Tamimi	Non Executive Director
Ms Dina "Moh'd Abdel Hamid" A Shoman	Non Executive Director
Mr Bernard Buncle	Chief Financial Officer
Mr James Wakim*	Former Managing Director
Ms Helen Michael***	Former Company Secretary and Head of Product Development and Growth Strategies

*Resigned 21 December 2010

** Appointed 22 December 2010

*** Resigned 18 March 2010

The key management personnel compensation included in "staff expenses" (see Note 4) are as follows:

	<i>Consolidated</i>		<i>The Company</i>	
	2010 \$	2009 \$	2010 \$	2009 \$
Short-term employee benefits*	1,536,242	1,689,445	1,536,242	1,689,445
Other long-term benefits	69,396	94,166	69,396	94,166
Post-employment benefits	114,542	128,285	114,542	128,285
	1,720,180	1,911,896	1,720,180	1,911,896

*Included in short term employee benefits is \$8,987 (2009 \$10,029) of annual leave for related parties.

Other key management personnel transactions

No director has entered into a material contract with the Company or its subsidiary during the financial year. There are no material contracts existing at the end of the financial year.

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.

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 notes to the financial statements. As at 31 December 2010 the Company had total loans to key management of \$nil (2009: \$231,303) and deposits received from key management of \$263,914 (2009: \$742,403) which were under normal terms and conditions.

Parent entity

The parent entity of Arab Bank Australia Limited is Arab Bank plc, a company incorporated in Jordan.

30. Contingent liabilities

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business.

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

	Consolidated		The Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
	Face value		Face value	
Credit risk related instruments				
Letters of credit confirmed in the normal course of business	3,173	4,292	3,173	4,292
Letters of Guarantee given in the normal course of business	39,478	14,826	39,478	14,826
Commitments to extend credit	156,837	180,577	156,837	180,577

31. Financial reporting by segments

The Company operates within one segment, the Australian Banking and Financial Services industry, providing a range of retail banking and trade finance products to customers.

32. Notes to the statement of cash flows**(a) Reconciliation of cash**

For the purposes of the Statement 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 Statement of cash flows is reconciled to the related items in the Statement of financial position as follows:

	Consolidated		The Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Cash	9,809	11,358	9,809	11,358
Receivables from other financial institutions	125,823	41,854	125,576	41,779
Total cash at end of year	135,632	53,212	135,385	53,137

32. Notes to the statement of cash flows (continued)**(b) Reconciliation of net profit to net cash (used in) / provided by operating activities**

	Consolidated		The Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
(Loss)/profit for the period	5,659	(405)	5,658	(412)
Add/(less) items classified as investing/financing activities:				
(Profit)/loss on sale of plant and equipment	(21)	176	(21)	176
Add/(less) non-cash items:				
Depreciation of plant and equipment	303	486	303	486
Amortisation of intangibles	372	803	372	803
Amortisation of mortgage establishment expenses	(8)	(392)	(8)	(392)
FX (gain)/loss	(37)	(145)	(37)	(145)
Increase in provisions for doubtful debts	(1,045)	12,704	(1,045)	12,704
Unrealised gain on hedging revaluations	(146)	1,599	(146)	1,599
Movement in discontinued cash flow hedge reserve	(34)	(2,849)	(34)	(2,849)
Movement in financial assets at fair value through profit or loss-designated	364	(188)	364	(188)
Changes in assets and liabilities:				
Change in loans, advances and bills discounted	(69,915)	(8,310)	(69,915)	(8,310)
Change in prepayments	26	(205)	26	(205)
Change in interest receivable	2,542	2,904	2,536	2,904
Change in interest payable	497	2,944	497	2,944
Change in other liabilities	1,521	124	1,527	116
Change in income tax payable	(1,365)	(507)	(1,366)	(504)
Change in deferred tax balance	518	(2,929)	518	(2,929)
Change in employee provisions	239	24	239	24
Net cash provided/(used in) by operating activities	(60,530)	5,834	(60,532)	5,822

(c) Net reporting of certain cash flows

Cash flows arising from the following activities have been presented on a net basis in the Statement 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;
- (i) balances due to and from other financial institutions;
- (iv) statutory deposits; and
- (v) investment securities.

33. Subsequent events

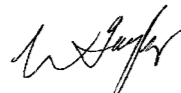
There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations,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

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

1. The financial statements and notes, set out on pages 26 to 63, are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the financial position of the Company and consolidated entity as at 31 December 2010 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 2001; 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:



Joseph Rizk
Director



Leslie Taylor AM
Director

Dated at Singapore this 2nd day of March 2011

LOCATIONS AND BRANCHES

International presence

JORDAN
ALGERIA
AUSTRIA
BAHRAIN
CHINA
EGYPT
FRANCE
GERMANY
ITALY
KAZAKHSTAN
LEBANON
LIBYA
MOROCCO
OMAN
PALESTINE
QATAR
SAUDI ARABIA
SINGAPORE
SOUTH KOREA
SPAIN
SUDAN
SYRIA
SWITZERLAND
TUNISIA
TURKEY
UAE
UNITED KINGDOM
USA
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AUBURN 19 Auburn Road Auburn NSW 2144 Lending Telephone (02) 9749 9950 Customer Service Telephone (02) 9749 9400	WESTMEAD Shop 3, Westmead Hospital Cnr Hawkesbury and Darcy Roads Westmead NSW 2145 Lending Telephone (02) 9689 3500 Customer Service Telephone (02) 9687 6800
BANKSTOWN Cnr Restwell Street & South Terrace Bankstown NSW 2200 Lending Telephone (02) 9707 3955 Customer Service Telephone (02) 9707 3755	COBURG 492 Sydney Road Coburg VIC 3058 Lending Telephone (03) 9355 8862 Customer Service Telephone (03) 9355 7740
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	FREECALL 1800 272 222 www.arabank.com.au

Front cover: The circle is the global brand symbol for the Arab Bank Group. It represents strength, unity and a belief in infinite possibilities. The intersecting dotted circles designed for the front cover of this report symbolise the diversity and interconnection of the numerous community and business groups that work and deal with the Bank, and the countless number of individuals that benefit from the Bank's products, services and community support.

As part of our commitment to social and environmental responsibility, this report has been printed on environmentally responsible paper produced from FSC (Mixed Sources) CoC certified pulp from well managed forests, which is elemental chlorine free (ECF) and is made carbon neutral.

Designed and produced by The Gallery.

