Arab Bank Australia

Building connections

2014 Annual Report

Chairman's Report

Mr Geoffrey C E Wild AM

2014 continued our process of consolidation, to which I referred in my previous year's report. The expenditure which the Board had committed to bringing our systems and procedures up to date brought significant benefits and enabled the Bank to continue our aim to provide superior customer satisfaction.

We at Arab Bank Australia are inordinately proud of the relationship we have created and nurtured with our customer base. It is not unusual for us to receive wonderful complements for 'going the extra mile' and this of course, gives us considerable satisfaction.

I would especially mention our people who work in the Branches. The pleasant disposition of our Customer Service team and their willingness to assist our customers in any way possible is one of the features of the way we try and do business. I applaud them for their commitment and loyalty.

We will continue to be a good corporate citizen. It has always been a feature of our brand that we seek to give back to the community in which we operate. Our varied and numerous partnerships with community based organisations will continue especially in the fields of Arts, Education and Health.

On the operational side, we will continue our commitment to diversifying our business channels throughout Australia and will expand and strengthen our already substantial ties in Western Sydney, where we see significant opportunities for growth.

And let me once again acknowledge the ongoing support of our Parent organisation, Arab Bank plc in Amman, Jordan, and especially our nominated Directors, Randa Sadik, Samer Tamimi and Theresa Batshon who have been tireless in their support of the Australian operation.

Finally, to Joseph Rizk and his management team and the entire Arab Bank Australia staff, it is a great pleasure to be part of such a well run and highly motivated group. My resident Australian Non Executive Directors, Les Taylor AM and Ian MacDonald thank you all most sincerely for your continued commitment.

Geoffrey C E Wild AM
Chairman

Managing Director's Report

Mr Joseph Rizk

We are proud to be part of a strong and highly regarded financial institution group which has operated successfully for over eight decades across the globe. Our parent, Arab Bank plc has provided unwavering support for Arab Bank Australia. We do not compromise on the best practice fundamentals of banking. Our strong liquidity and capital ratios are a testament to our commitment to being a stable and reliable business partner to the communities we serve. Our loyal and expanding customer base has always been our focal point and continues to be so.

Whilst the past few years have been challenging, Arab Bank Australia prides itself on being a good corporate citizen and continues to give back to the community through sponsorship of a variety of initiatives, including support of the arts, sports and education.

My team and I look forward to supporting you and your family's journey in achieving your financial needs and aspirations.

Joe Rizk

Arab Bank Australia Limited Business Overview

Business Development

The Bank has continued to drive business development and has achieved a 12% growth in the portfolio. This has been supported by continued investment in improving the staff skill sets through tailored training and sales coaching.

In 2014, the Bank focused on positioning itself to maximise future opportunities that will arise from the planned Federal and State Governments' investment in infrastructure in Western Sydney. The Bank's long term presence in Western Sydney and ongoing investment in increasing its brand profile in this region has created a strong base to maximise future opportunities.

In line with the Bank's strategy of continuing to look at ways to better service its customers and align itself with their needs, a review of all branch locations, accessibility and banking convenience was conducted. As a result of this review, the Bank established a new banking suite on Collins Street in Melbourne to provide Arab Bank Australia with a presence in Victoria's Central Business District and elected to exit some locations. The Bank is exploring unique opportunities to expand its existing service channels and to develop a business model which can respond to customers' evolving needs in a timely manner.

Customer Service Enhancements

The enhancement of the Bank's home loan process is a key priority and a significant project has commenced to further enhance the customer experience and to support the future anticipated growth of the Bank's retail lending portfolio. Phase one of this project has been completed with a resulting reduction in the Bank's standard home loan credit approval turnaround from three days to one hour.

Capital and Treasury

The Bank maintains a solid capital position and has and will continue to meet the requirements required for the transition to Basel III effective from early 2016.

The Bank's self-funding ratio remains above 80%, through the support of its loyal and expanding customer base ensuring that the Bank is not reliant on global wholesale markets for funding.

A strong liquidity position is also maintained with a loan to deposit ratio averaging 85% and liquid asset investments constituting close to 30% of total assets. Due to this the Bank is well placed for the implementation of the Basel III liquidity framework known as the Liquidity Coverage Ratio (LCR), which came into effect on 1 January 2015.

Foreign exchange activity continues for the Bank's niche customer base and the Bank seeks to maintain competitive customer exchange rates on a consistent basis.

Managing Director's Report (continued)

Technology

In early 2014, the Bank finalised its infrastructure platform refresh to ensure it has the ability to meet future business needs. The creation of a highly agile, robust, secure and scalable virtualised environment has already seen measurable improvements in processing capabilities and increased business continuity capability. This has provided a platform for new product development which traditionally took months and has reduced it to weeks.

Operations

The Bank's Operations department continues to maximise efficiencies which support the timely processing of customer transactions and the development of the business.

The skill sets of the Operations team have been enhanced through an ongoing training program, creating a dynamic, cost effective working environment.

Risk Management

Throughout 2014 a project was undertaken to ensure that the Bank held the appropriate risk management frameworks as required by the new regulatory standard CPS220 – Risk Management. The standard became effective on 1 January 2015 and it was pleasing to note that the extensive reviews which were undertaken in 2012 and 2013 placed the Bank in a strong position to meet the requirements with only a few minor adjustments.

The Bank continues to focus on maintaining and building upon its strong risk management governance and supporting the necessary risk culture.

Credit Risk Management

The Bank continued to focus on building a simple, low risk and diversified portfolio. This was achieved through the significant recruitment and development of Credit Risk Personnel coupled with infrastructural work to maximise opportunities in the residential property market.

Market and Liquidity Risk

The Bank's oversight of its market risks is handled by a dedicated team. During 2014 a new liquidity reporting system was implemented to enable optimisation of asset and liability management from a liquidity perspective.

Operational Risk

The Bank has continued to enhance its Operational Risk Management Framework supported by a strong risk culture and the placement of risk champions in all areas of the Bank.

Compliance Framework

The Bank maintains a Compliance Management Framework which is maintained to adapt to the evolving regulatory environment. This Framework is underpinned by a culture of individual accountability and responsibility based on a Three Lines of Defence model.

Human Resources

The introduction of a number of technical roles in 2013 has seen a strong provision of support for the Bank's Credit and Business functions throughout 2014.

Throughout 2014, training for the frontline team was delivered with a strong focus on developing and enhancing sales skills. This was planned to continue to take advantage of improving market conditions. 2015 will also see a focus on coaching and developing high performance teams in all aspects of banking, from sales and service to credit and risk. Training the Bank's staff is viewed as a critical investment in the Bank's future in providing its staff with enhanced career opportunities and in providing its customers with the best possible service.

The high value placed on maintaining strong relationships with customers is reinforced by the low turnover of staff. Just under half of all employees have been with the Bank for more than 5 years, giving the Bank strong company knowledge and experience and greater understanding of long term customers' needs and consistency in service delivery.

Community Support

In 2014, Arab Bank Australia maintained its ongoing commitment to supporting wider community initiatives through financial support of medical research, the arts, education as well as a number of charitable causes. The Bank continued to build upon its existing relationships with associations and organisations that require support in three core areas: community wellbeing, community culture and community partnerships.

The Bank's long term association with the Westmead Medical Research Foundation continued in 2014 and the support provided for a number of key initiatives throughout the year have contributed to the Foundation's efforts to improve health care and further research at Westmead Hospital. Arab Bank Australia's sponsorship of the Art Gallery Society of New South Wales' Learning Curve Lecture Series entered its fifth year. The Bank has built a strong and well-recognised partnership with the Art Gallery Society and is proud to support one of the country's leading cultural institutions and their efforts to provide a diverse range of learning opportunities for the wider community.

Corporate Governance Statement

for the year ended 31 December 2014

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" or the "Bank"), and its controlled entities, being the economic entity.

The principles set forth in the Corporate Governance Framework are designed to reflect the full force and intent of the Australian Prudential Regulation Authority's Prudential Standard CPS 510 Governance and to collate the functions and operating principles under which the Board and its Board Committees operate.

A revised Prudential Standard CPS 510 Governance has been issued with an effective date of 1 January 2015. A review of the Governance Framework to reflect the necessary changes was completed in 2014 with the most significant change being the transfer of responsibilities and discontinuance of the Board Audit and Risk Committee and the establishment of two new committees being the Board Audit Committee and Board Risk Committee, effective from 1 January 2015.

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, formulating and approving the Bank's strategies and financial objectives to be set out in the annual budgets to be implemented by management;
  - establishing, with management and approving the Bank's Risk Appetite;
  - reviewing and approving the ICAAP consistent with the Board determined Risk Appetite;
  - 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 and that satisfies the regulatory requirements;
  - approving risk management frameworks and accounting policies, including risk policies and standards, financial statements and reports and overseeing the establishment and ongoing monitoring of the effectiveness of systems of risk and financial management;
  - monitoring the performance of management directly, and through its Committees;
  - 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;
  - review 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 his direct reports, excluding administrative positions;
  - Annual review and approval of the remuneration of employees, including the following:
    - changes in remuneration policy, including superannuation, other benefits and remuneration structure;
    - changes to the Bank's Short Term and Long Term Incentive Schemes;
    - remuneration (including the components comprising the package, such as short term and long term incentives) for the Managing Director;

- remuneration recommendations from the Managing Director, endorsed by the Board Remuneration Committee (BRC) and Board Audit and Risk Committee (BARC), for the Managing Director's direct reports, excluding administrative positions, responsible persons, risk and financial control personnel and for all other persons for whom a significant portion of total remuneration is based on performance and whose activities, individually or collectively, may affect the financial soundness of the Bank. This also includes reviewing and approving key performance indicators at the start of the performance period;
- in aggregate, the annual fixed remuneration increase and annual bonus pool provision for the Bank; and
- in aggregate, the outcomes of remuneration review by management for the bonus pool, prior to any payment being made.

The Board reviews the BRC recommendations in respect of the overall fees payable to the directors, and will make recommendation to the shareholder for approval.

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.

In November 2014 the Board approved a revision of the Board Charter resulting from further clarification of responsibilities emanating from the revised Prudential Standard CPS 510 Governance, effective from 1 January 2015. From 1 January 2015 the charter reflects the role of the Board in allocating adequate resources to the risk management function and ensuring an appropriate organisational structure, strategic direction and level of staff training are implemented to permit regular risk reviews and reporting of risk issues.

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 of directors are 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 are 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 7 directors of the Bank, and details of their experience, qualifications, and 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 Chair
Geoffrey C E Wild AM

Non-executive Deputy Chair
Randa El Sadek

Non-executive Independent
Ian G MacDonald
Leslie E Taylor AM

Non-executive
Samer S H Al Tamimi
Therese A S Batshon

Executive
Joseph Rizk

Independence

The Board regularly assesses the independence of each director, in accordance with the criteria for independence set out in Prudential Standard CPS 510. 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 or 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 on page 4 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 of 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 a policy in place 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 CPS 510, 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.

The Board identifies any additional areas where education is required and suggests appropriate development activities for directors after consideration of the results of the annual performance assessment of directors.

Committees

In November 2014 the Board elected to discontinue the Board Audit and Risk Committee and transferred the functions of the Committee to two separate committees being the Board Audit Committee and Board Risk Committee effective from 1 January 2015.

The Board Committees throughout 2014 were:
Board Audit and Risk Committee (BARC)*
Board Remuneration Committee (BRC)
Board Credit Delegation (BCD)

*Effective to December 2014

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.

Board Audit and Risk Committee ("BARC") (effective to December 2014)

Membership of the BARC consists of:
Leslie E Taylor AM (Chair)
Geoffrey C E Wild AM
Randa El Sadek
Ian G MacDonald
Samer S H Al Tamimi

Corporate Governance Statement (continued)

The Board Audit and Risk Committee's primary responsibility is to assist the Board in fulfilling its fiduciary and statutory responsibilities in relation to the external reporting of financial and non-financial information, compliance and regulatory issues, internal control framework, risk management frameworks (covering credit, liquidity, market and operational risk), and the independence and effectiveness of audit activities, plus any other matters referred to it by the Board.

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

- The BARC 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 BARC.
- 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 BARC is appointed by the Board and must not be the same person as the Chair or Deputy Chair of the Board. The Chair must be an independent director.
- The Managing Director, the Executive Manager Internal Audit, the Chief Risk Officer and legal advisor will attend meetings by invitation.
- At least once a year, the BARC meets the external auditor and the Executive Manager Internal Audit independently of management.
- The BARC is responsible for nominating the external auditor to the Board for appointment by the shareholder. Deloitte Touche Tohmatsu has 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 CPS 510 and CPS 520) and codes of professional conduct. The BARC will assess on at least an annual basis, the independence, fitness and propriety of the external auditors.
- Audit fees are reviewed by the BARC 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 BARC 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 BARC 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 BARC, in relation to dealing with the independence of the external auditor, inter alia, has adopted the practice of meetings between the BARC and the auditor in the absence of management.
- The BARC 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 auditor on any significant matters raised by the auditor with management.
- All material accounting matters requiring exercise of judgment by management are specifically reviewed by the BARC and reported on by the BARC to the Board.
- The policy governing the provision of non-audit services by the external auditor is set out in the BARC Charter and Operational Governance Practices.
- The Bank requires the partner managing the external audit be changed within a period of 5 years from initial engagement.

The BARC is responsible for the oversight of management in the preparation of the Bank's financial statements and financial disclosures. The BARC relies on the information provided by management and receives reports from the external auditors on an ongoing basis. 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 (Chair)
Geoffrey C E Wild AM
Randa El Sadek

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

Board Credit Delegation (BCD)

The Board delegated to the following Directors the authority to approve credit transactions outside the scope of the delegations to management under the Board's Delegated Authorities:

Geoffrey C E Wild AM
Randa El Sadek
Ian G MacDonald
Samer S H Al Tamimi

Each Delegate has direct access to the Managing Director, the Chief Risk Officer ("CRO") and management on any matters referred to them under the Board Credit Delegation ("BCD"). The Delegates are entitled to rely on management for matters that are the responsibility of management and on the advice of experts advising management, subject to the normal duties of directors.

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 assurance to the Managing Director and the Board, and the careful selection and training of qualified personnel by Human Resources.

Risk Management

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

- Establishment of a governance structure;
- Board oversight that there is a sound risk culture;
- Board approval and oversight of the setting of the risk appetite, approval of the Risk Management Strategy and providing management with the appropriate mandates;
- Managing Director direction;
- Dedicated Chief Risk Officer;
- Business Unit Managers' support and adherence to policy and procedures;
- Risk management processes and procedures;
- Audit assurance;
- Board Audit Committee and Board Risk Committee oversight and guidance for management of credit, market, funding, liquidity, operational, business continuity, compliance and security risks; and
- The Board oversights and provides guidance for the management of strategic risk.

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, with 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 customer service, trust, accountability, team work and transparency. To emphasise the importance of the core values, the core values are regularly communicated to all personnel throughout the organisation.

Corporate Governance Statement (continued)

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, the Bank's 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 Pty Ltd, a wholly owned subsidiary of Arab Bank Australia Limited, is comprised of the following directors:

Geoffrey C E Wild AM
Randa El Sadek
Joseph Rizk

Director's Report

for the year ended 31 December 2014

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 entities, for the year ended 31 December 2014, and the auditor's report thereon.

Directors

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

Mr Geoffrey C E Wild AM
Chairman and Non Executive Independent Director

Mr Wild has been a member of the Board since 2 November 1995 and was appointed as Chairman on 19 July 2011. Prior to his appointment as Chairman, he was Deputy Chairman from 9 September 2004. He is a member of the Board Audit and Risk Committee, the Board Remuneration Committee and the Board Credit Delegation.

Mr Wild is also the Chairman of WPP Holdings Australia and related entities. 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 Royal College of Arts (FRCA), Fellow of the Australian Institute of Company Directors, Associate of the Institute of Business Administration, and a Member of the Order of Australia (AM).

Ms Randa El Sadek
Deputy Chair and Non Executive Director

Ms El Sadek is Deputy Chair and has been a Board member since 17 August 2011. Ms El Sadek is a member of the Board Audit and Risk Committee, the Board Remuneration Committee and the Board Credit Delegation.

Ms El Sadek is Deputy Chief Executive Officer of Arab Bank Plc. She holds a Masters 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 Chair of the Board Audit and Risk Committee.

Mr Taylor is a solicitor and a Senior Fellow of the Financial Services Institute of Australia.

He is Chairman of the Whitehouse Institute of Fashion and Design and a director of Ellensborough Securities Pty Limited.

He was made a Member of the Order of Australia (AM) for services to the Financial Sector in 2010.

Mr Ian G MacDonald,
Non Executive Independent Director

Mr MacDonald has been a member of the Board since 1 July 2006. He is Chair of the Board Remuneration Committee and a member of the Board Audit and Risk Committee.

He is a director of Genworth Mortgage Insurance Australia Limited and Tasmanian Public Finance Corporation.

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 Audit and Risk Committee.

Mr Al Tamimi is The Regional Manager of Arab Bank – Qatar.

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

Ms Therese A Batshon
Non Executive Director

Ms Batshon has been a member of the Board since 18 March 2013.

Ms Batshon is the Senior Vice President and Area Head for Arab Bank Plc – Asia Pacific.

She has a Masters Degree in Management Sciences/ Administration.

She is a veteran in commercial banking with more than 30 years of banking experience in different areas of the business and covering different regions.

Director's Report (continued)

Mr Joseph Rizk
Managing Director

Mr Rizk has been Managing Director since 22 December 2010.

He is the President of the Board of Directors for the Westmead Medical Research Foundation and Director of the Lebanese Chamber of Commerce.

Mr Rizk has over 40 years experience in Banking including various roles at National Australia Bank Limited before joining the Bank as Chief Banking Officer in 2005. He is a fellow of the Financial Services Institute of Australasia, Fellow of the Australian Institute of Management and a member of the Australian Institute of Company Directors.

Directors' Meetings

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

Board

Director	Meetings Held	Meetings Attended
Geoffrey C E Wild AM	4	4
Randa El Sadek	4	3
Samer S H Al Tamimi	4	4
Therese Batshon	4	4
Ian G MacDonald	4	4
Leslie E Taylor AM	4	4
Joseph Rizk	4	4

Committee Meetings

Audit, Risk & Compliance Committee

Director	Held	Attended
Geoffrey C E Wild AM	6	6
Randa El Sadek	6	6
Samer S H Al Tamimi	6	6
Ian G MacDonald	6	6
Leslie E Taylor AM	6	6

Remuneration Committee

Director	Held	Attended
Geoffrey C E Wild AM	2	2
Randa El Sadek	2	2
Ian G MacDonald	2	2

Company Secretary

Katherine Bayliss was appointed Company Secretary on 9 July 2013. She is a fellow of the Association of Chartered Certified Accountants and a certificated member of the Governance Institute of Australia.

Principal activities

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

Results

The consolidated loss before income tax credit was $5,875,000 (2013: $241,000).

The consolidated (loss)/profit after income tax credit of $1,659,000 (2013: $488,000) was ($4,216,000) (2013: $247,000).

Auditor's independence

The lead auditor's independence declaration is set out on page 15 to 17 and forms part of the Directors' report for the year ended 31 December 2014.

Indemnification and insurance of officers and auditors

The Company has agreed to indemnify the directors and officers of the Company and its controlled entities 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 entities, 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 its current auditors, Deloitte Touche Tohmatsu, which indemnifies them against any claims by third parties arising from their report on the Annual Financial Report.

Since the end of the previous financial year, the Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses insurance contracts for current directors and officers, including senior executives of the Company.

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 2014 (2013: Nil).

Director's Report (continued)

Review of operations

In a challenging environment with margins continuing to tighten progressively throughout the year, the Bank's lending assets grew by 6.7% year on year. Continuing momentum in the residential housing market contributed 10.3% to this growth, followed by an 8.0% increase in commercial lending. With interest rates remaining low, the growth in residential lending is expected to continue in 2015. The sustained and heavily competitive small to medium business environment continues to struggle as it has for the past three years and only moderate growth is anticipated in the Bank's commercial lending. Disappointingly, the Bank made a loss for FY2014 following a small profit in FY2013. Operating income declined by 14.7% in 2014. A combination of lower market driven lending margins and higher cost of wholesale funding to Arab Bank Australia Limited has added a significant impost to the net interest margin. Expenses were well contained and increased by only 2.6%, with staff costs increasing by 0.4%, whereas non staff costs increased by 5.9%. Impairment charges increased by $1.2m despite the overall continuing improvement in the credit quality of the loan book. Liquidity remains extremely strong as does capital adequacy.

Change in state of affairs

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.

Australian Prudential Standard (APS) 330: Public Disclosure

For detailed disclosures of APS 330, refer to the Company's website http://www.arabbank.com.au/about/public-disclosures.

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 entities 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 E Taylor AM
Director

Dated at Sydney this 4th day of March 2015

Independent Auditor's Report

to the members of Arab Bank Australia Limited

We have audited the accompanying financial report of Arab Bank Australia Ltd, which comprises the statement of financial position as at 31 December 2014, the statement of profit or loss, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end as set out on pages 19 to 64.

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 internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with 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. Those 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 company'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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Arab Bank Australia Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

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 and consolidated entity's financial position as at 31 December 2014 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

DELOITTE TOUCHE TOHMATSU

Graham Mott
Partner
Chartered Accountants

Sydney, 4th March 2015

Lead Auditor's Independence Declaration

Under Section 307C of the Corporations Act 2001

To: The Directors of Arab Bank Australia Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Arab Bank Australia Limited.

As lead audit partner for the audit of the financial statements of Arab Bank Australia Limited for the financial year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Graham Mott
Partner
Chartered Accountants

Sydney, 4th March 2015

Financial Statements

for the year ended 31 December 2014

Statement of profit or loss

for the year ended 31 December 2014

	Note	Consolidated		Company	
		2014 $'000	2013 $'000	2014 $'000	2013 $'000
Interest income	5	46,736	56,153	46,726	56,142
Interest expense	5	27,286	33,513	27,286	33,513
Net interest income		**19,450**	**22,640**	**19,440**	**22,629**
Non-interest income	5	**2,393**	**2,977**	**2,393**	**2,977**
Operating income		**21,843**	**25,617**	**21,833**	**25,606**
Loan impairment charges	12	2,449	1,227	2,449	1,227
Operating expenses	5	25,269	24,631	25,269	24,631
Loss before income tax credit		**(5,875)**	**(241)**	**(5,885)**	**(252)**
Income tax credit	6(a)	(1,659)	(488)	(1,662)	(491)
Net (loss)/profit		**(4,216)**	**247**	**(4,223)**	**239**

The Statement of Profit or Loss is to be read in conjunction with the notes to the financial statements set out on pages 24 to 55.

Statement of Comprehensive Income

for the year ended 31 December 2014

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
(Loss)/Profit for the period		**(4,216)**	**247**	**(4,223)**	**239**
Other comprehensive (loss)/income					
Items that may be reclassified subsequently to (loss)/profit					
Effective portion of changes in fair value of cash flow hedges	24	(929)	1,281	(929)	1,281
Other comprehensive (loss)/income before income tax		**(929)**	**1,281**	**(929)**	**1,281**
Income tax credit/(expense) on other comprehensive (loss)/income	6(a)	279	(384)	279	(384)
Other comprehensive (loss)/income for the period, net of income tax		**(650)**	**897**	**(650)**	**897**
Total comprehensive (loss)/income for the period		**(4,866)**	**1,144**	**(4,873)**	**1,136**
Total comprehensive (loss)/income attributable to owners of the Company		**(4,866)**	**1,144**	**(4,873)**	**1,136**

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 24 to 55.

Statement of Financial Position

for the year ended 31 December 2014

	Note	Consolidated		Company	
		2014 $'000	2013 $'000	2014 $'000	2013 $'000
Assets					
Cash and cash equivalents	33	1,196	6,092	1,196	6,092
Receivables from other financial institutions	7	56,926	54,631	56,644	54,360
Financial assets at fair value through profit or loss - designated	8	-	5,039	-	5,039
Derivative assets	10	-	190	-	190
Loans and advances to customers, net	11	618,989	579,906	618,989	579,906
Financial assets – amortised cost	9	263,789	234,692	263,789	234,692
Shares in controlled entities	14	-	-	70	70
Current tax asset		-	111	-	113
Plant and equipment	15	1,257	1,433	1,257	1,433
Intangible assets	16	1,503	1,551	1,503	1,551
Deferred tax assets	6(b)	11,188	9,257	11,191	9,261
Other assets	17	1,659	1,459	1,649	1,442
Total assets		**956,507**	**894,361**	**956,288**	**894,149**
Liabilities					
Payables to other financial institutions	18	38,560	37,890	38,560	37,890
Derivative liabilities	10	2,606	1,786	2,606	1,786
Deposits	19	738,704	675,775	738,704	675,775
Provisions for employee entitlements	20	1,760	1,409	1,760	1,409
Other liabilities	21	2,161	2,198	2,130	2,167
Subordinated debt	22	54,662	52,383	54,662	52,383
Total liabilities		**838,453**	**771,441**	**838,422**	**771,410**
Net assets		**118,054**	**122,920**	**117,866**	**122,739**
Equity					
Share capital	23	62,500	62,500	62,500	62,500
Reserves	24	4,497	4,870	4,497	4,870
Retained earnings	25	51,057	55,550	50,869	55,369
Total equity		**118,054**	**122,920**	**117,866**	**122,739**

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 24 to 55.

Statement of Changes in Equity

for the year ended 31 December 2014

	Note	Share capital $'000	Hedging reserve $'000	Credit reserve $'000	Retained earnings $'000	Total $'000
Consolidated						
For the year ended 31 December 2014						
Balance as at 1 January 2014		**62,500**	**(1,180)**	**6,050**	**55,550**	**122,920**
Comprehensive loss						
Loss for the period	25	-	-	-	(4,216)	(4,216)
Effective portion of changes in fair value of cash flow hedges, net of tax	24	-	(650)	-	-	(650)
Total comprehensive loss for the period	**24**	**-**	**(650)**	**-**	**(4,216)**	**(4,866)**
Transfer to credit reserve from retained earnings	24	-	-	277	(277)	-
Balance as at 31 December 2014		**62,500**	**(1,830)**	**6,327**	**51,057**	**118,054**
Company						
For the year ended 31 December 2014						
Balance as at 1 January 2014		**62,500**	**(1,180)**	**6,050**	**55,369**	**122,739**
Comprehensive loss						
Loss for the period	25	-	-	-	(4,223)	(4,223)
Effective portion of changes in fair value of cash flow hedges, net of tax	24	-	(650)	-	-	(650)
Total comprehensive loss for the period	**24**	**-**	**(650)**	**-**	**(4,223)**	**(4,873)**
Transfer to credit reserve from retained earnings	24	-	-	277	(277)	-
Balance as at 31 December 2014		**62,500**	**(1,830)**	**6,327**	**50,869**	**117,866**

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 24 to 55.

Statement of Changes in Equity

for the year ended 31 December 2014

	Note	Share capital $'000	Hedging reserve $'000	Credit reserve $'000	Retained earnings $'000	Total $'000
Consolidated						
For the year ended 31 December 2013						
Balance as at 1 January 2013		**62,500**	**(2,077)**	**7,868**	**53,485**	**121,776**
Comprehensive income						
Profit for the period	25	-	-	-	247	247
Effective portion of changes in fair value of cash flow hedges, net of tax	24	-	897	-	-	897
Total comprehensive income for the period	**24**	**-**	**897**	**-**	**247**	**1,144**
Transfer from credit reserve to retained earnings	24	-	-	(1,818)	1,818	-
Balance as at 31 December 2013		**62,500**	**(1,180)**	**6,050**	**55,550**	**122,920**
Company						
For the year ended 31 December 2013						
Balance as at 1 January 2013		**62,500**	**(2,077)**	**7,868**	**53,312**	**121,603**
Comprehensive income						
Profit for the period	25	-	-	-	239	239
Effective portion of changes in fair value of cash flow hedges, net of tax	24	-	897	-	-	897
Total comprehensive income for the period	**24**	**-**	**897**	**-**	**239**	**1,136**
Transfer from credit reserve to retained earnings	24	-	-	(1,818)	1,818	-
Balance as at 31 December 2013		**62,500**	**(1,180)**	**6,050**	**55,369**	**122,739**

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 24 to 55.

Statement of Cash flow

for the year ended 31 December 2014

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
Cash flows from operating activities					
Interest received		46,284	57,348	46,274	57,335
Fees, commission and other non-interest received		2,608	2,283	2,608	2,283
Interest payments		(24,764)	(29,637)	(24,764)	(29,637)
Income taxes refunded		118	1,106	118	1,106
Payments to employees and suppliers		(24,032)	(24,694)	(24,032)	(24,694)
Net cash from operating activities	**33(b)**	**214**	**6,406**	**204**	**6,393**
Cash flows from investing activities					
Purchase of property, plant and equipment		(1,117)	(552)	(1,117)	(552)
Change in due from other financial institutions		3,500	8,500	3,510	8,513
Change in financial assets at fair value through profit or loss –designated		5,000	24,594	5,000	24,594
Loans, advances and bills discounted		(41,375)	160,957	(41,375)	160,957
Change in financial assets at amortised cost		(28,855)	56,206	(28,855)	56,206
Net cash (used in)/from investing activities		**(62,847)**	**249,705**	**(62,837)**	**249,718**
Cash flows from financing activities					
Change in due to other financial institutions		848	(183,935)	848	(183,935)
Change in deposits		62,716	(28,344)	62,716	(28,344)
Debt securities repurchased		-	(60,593)	-	(60,593)
Net cash from/(used in) financing activities		**63,564**	**(272,872)**	**63,564**	**(272,872)**
Net increase/(decrease) in cash and cash equivalents		931	(16,761)	931	(16,761)
Cash and cash equivalents at the beginning of the financial year		57,080	73,841	57,080	73,841
Cash and cash equivalents at the end of the financial year	**33(a)**	**58,011**	**57,080**	**58,011**	**57,080**

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 24 to 55.

Notes to the financial statements

for the year ended 31 December 2014

1. General information

Arab Bank Australia Limited (referred to as the "Bank" or "Company") is a Company domiciled in Australia. The address of the Company's registered office is Level 7, 20 Bridge Street, Sydney, NSW, 2000.

During the year, the Company established the Petra Trusts (referred to as the "Trust") which is a Residential Mortgage Backed Securitisation Trust. The Company acts as subscriber, manager and administrator of the Trust. Perpetual Corporate Trust Limited is the Trustee. The Trust is a wholly owned entity of the Company since inception. Refer to Note 13 for further details.

The consolidated financial statements for the year ended 31 December 2014, comprise the Company, its Subsidiaries, Arab Australia Capital Markets Pty Ltd and the Petra Trusts (referred to as "Group" or "Consolidated entities").

The Group is a for-profit entity and primarily involved in investment, corporate and retail banking.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Company and the Group are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements of the Company and the Group comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 4th March 2015.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis 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

(c) Functional and presentation currency

These 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 the consolidated financial statements in conformity with IFRS 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 estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

note 12 – Provisions for impairment
note 26 – Fair value of financial instruments

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 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 prevailing at the dates of the transactions. 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 Statement of Profit or Loss.

(c) Cash and cash equivalents

Cash and cash equivalents include 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) Non-derivative financial instruments

The Group initially recognises financial assets on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. If the financial asset is not subsequently measured at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. The Group subsequently measures financial assets at either amortised cost or fair value.

Premiums or discounts are amortised using the effective interest rate method. Any allocations resulting from the decline in value of these investments leading to the inability to recover the investment or part thereof are recorded, and any impairment is recognised in the consolidated Statement of Profit or Loss.

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 in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or expire.

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 them on a net basis or to realise the asset and settle the liability simultaneously.

On initial recognition, the Group classifies its financial assets as subsequently measured at either amortised cost or fair value, depending on its business model for managing the financial assets and contractual cash flow characteristics of the financial assets.

Financial assets are not reclassified subsequent to their initial recognition, except when the Group changes its business model for managing financial assets.

The Group might choose to designate debt instruments that meet the amortised cost criteria as financial assets at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch. Reclassification of debt instruments which meet the amortised cost conditions but are designated at fair value through profit or loss on initial recognition is not allowed.

Financial assets or financial liabilities measured at amortised cost

Financial asset categories in the Statement of Financial Position measured at amortised cost are receivables from other financial institutions, loans and advances to customers, selected bonds and floating rate notes (financial assets at amortised cost) and financial liabilities include the subordinated debt.

3. Significant accounting policies (continued)

(d) Non-derivative financial instruments (continued)

Financial assets are measured at amortised cost only if:

1. The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

2. The contractual terms of the financial asset give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value through profit or loss – designated

Such financial assets are those initially designated at fair value through profit or loss if such designation eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch) that would otherwise arise. Financial assets may be designated at fair value through profit or loss if they make part of a group of financial assets or financial liabilities or both, that are managed and their performance is evaluated on a fair value basis in accordance with a documented investment policy.

Financial assets designated at fair value through profit or loss are initially recognised at their fair value and are stated subsequently at fair value, while transaction costs are expensed in the Statement of Profit or Loss. Changes in fair value of these financial assets are included in the Statement of Profit or Loss in the period in which the change occurs.

Gains (losses) from the changes in the foreign exchange rates of monetary assets denominated in foreign currencies are recorded within non-interest income.

(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 and 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 swap 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.

The Group applies hedge accounting and 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 value 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 and other comprehensive income in the same period that the hedged item affects profit or loss.

3. Significant accounting policies (continued)

(f) Derivative financial instruments, including hedge accounting (continued)

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 Statement of Profit or Loss. An amount equal to the effective portion of the fair value at designation is amortised to the Statement of Profit or Loss and other comprehensive income in accordance with the expected future cash flows of the derivative hedging instrument.

(g) Securitisation Costs - amortisation

Costs incurred which are directly attributable to the establishment of the Trust as described in Note 1 as well as costs incurred by the Company which are directly related to the issue of a pool of mortgage loans by the Trust are amortised over 3 years, which is the expected life of the pool of loans.

(h) 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 financial assets at amortised cost
The Group assesses at each reporting date, whether there is any objective evidence that individual loans and advances and financial assets held at amortised cost 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 is 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 and advances to customers are presented net of provisions for loan impairment. The Group has assessed provisions individually and collectively. Individually assessed provisions are made against financial assets that are individually significant or which have been individually assessed as impaired. The provisions are established based primarily on estimates of the realisable value of collateral taken and are measured as the difference between a financial asset’s carrying amount and the net value of the expected future cash flows.

All other loans and advances to customers 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. In addition, management considers overall indicators of portfolio performance, quality and economic conditions.

The amount required to bring the collective provision to the level assessed is recognised in the Statement of Profit or Loss.

3. Significant accounting policies (continued)

(h) Provisions for impairment (continued)

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 Statement of Profit or Loss.

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.

(i) Property and equipment

Items of Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation

Items of Property and equipment are depreciated at appropriate rates to recognise the cost of each asset during its effective working life using the straight-line method. The estimated useful lives of property and equipment are as follows:

Equipment	3 to 5 years
Furniture	6 years
Motor Vehicles	5 years
Leasehold Improvements	Life of Leasehold

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

(j) Intangible assets

Computer software

The Group capitalises certain computer software costs and recognises them as intangible assets 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.

Intangible assets are assessed annually for impairment in accordance with Note 3(h).

(k) 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 amount of the obligation under the contract, as determined in accordance with AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'. Financial guarantees are included within other liabilities.

(l) Shares in controlled entities

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

(m) 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 expense is charged to the Statement of Profit or Loss using the effective yield method.

3. Significant accounting policies (continued)

(m) 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.

(n) 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 expense is charged to the Statement of Profit or Loss using the effective yield method.

(o) 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 Statement of Profit or Loss include interest on financial assets and liabilities measured at amortised cost 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 and foreign exchange differences.

(p) 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.

(q) Income taxes

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

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

3. Significant accounting policies (continued)

(q) Income taxes (continued)

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 reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

During the year, the Company entered into a tax sharing agreement with its newly established entity, Petra Trusts. Under the terms of the agreement, the Company and the Trust will be members of the tax consolidated group along with the existing wholly owned subsidiary Arab Australia Capital Markets Pty Ltd. As a consequence, all members of the tax-consolidated group are taxed as a single entity and the Head company is Arab Bank Australia Limited.

(r) 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.

(s) Other liabilities

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

(t) General reserve for credit losses

In accordance with the Australian Prudential Regulation Authority (APRA) guidelines the Group reallocates a portion of retained earnings to a non-distributable reserve which is calculated as approximately 1% of credit risk weighted assets. This reallocation is not recognised in the Statement of Profit or Loss and represents credit losses estimated but not certain to arise in the future.

(u) Presentation of financial statements

Some comparatives reported in the previous financial year have been reclassified to conform with current year's presentation.

4. Application of new and revised Accounting Standards

New and revised AASBs affecting amounts reported and/or disclosures in the financial statements

In the current year, the Group has applied a number of new and revised AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2014.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements

The amendments remove all the individual key management personnel (KMP) disclosures in AASB 124 'Related Party Disclosures' that were specific to Australian entities. The Group has consistently disclosed the KMP compensation in total and for each of the categories required in AASB 124.

4. Application of new and revised Accounting Standards (continued)

New and revised AASBs affecting amounts reported and/or disclosures in the financial statements (continued)

AASB CF 2013-1 Amendments to the Australian Conceptual Framework, AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part A - Conceptual Framework)

The amendment incorporates Chapters 1 (Objective of General Purpose Financial Reporting) and 3 (Qualitative Characteristics of Useful Financial Information) of the IASB's Conceptual Framework for the Preparation and Presentation of Financial Statements for application by for-profit entities and, with some amendments, for application by not-for-profit entities. The amendment has not had any material impact in any accounting policies adopted under the existing AASB Framework and on the amounts recognised in the consolidated financial statements.

AASB CF 2013-1 Amendments to the Australian Conceptual Framework, AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part B - Materiality)

The withdrawal of AASB 1031 Materiality, requires amendments to particular Australian Accounting Standards (including Interpretations) to delete references to the same. Until all such references have been removed, the revised AASB 1031 is an interim Standard that cross references to other Standards and the Framework for the Preparation and Presentation of Financial Statements that contain guidance on materiality. The amendment has not had any material impact on the consolidated financial statements as the withdrawal of AASB 1031 is not expected to change the practice of application of materiality in financial reporting or change the level of disclosure presently specified by other accounting standards.

Apart from the standards mentioned above, there are no other new and revised Standards and Interpretations adopted in the consolidated financial statements affecting the reported results or financial position.

Standards and interpretations in issue not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these consolidated financial statements.

It is expected that the AASB will release AASB 9 'Financial instruments' that will include new requirements for impairment and hedge accounting. This will become mandatory beginning 1st January 2018. It will introduce significant changes in the way that the Group accounts for financial instruments. The key changes proposed relate to:

- Impairment: both expected losses and incurred losses will be reflected in impairment allowances for loans and advances; and
- Hedge accounting: hedge accounting will be more closely aligned with financial risk management.

5. Operating profit and expenses

Profit before income tax has been determined as follows:

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Interest income				
Cash and liquid assets	198	211	198	211
Receivables from other financial institutions[1]	1,095	1,409	1,063	1,398
Loans and advances to customers[2]	35,529	42,726	35,551	42,726
Financial assets at fair value through profit or loss – designated	-	414	-	414
Financial assets – at amortised cost	8,626	9,225	8,626	9,225
Interest rate swaps	1,288	2,168	1,288	2,168
Total interest income	**46,736**	**56,153**	**46,726**	**56,142**

[1]Receivables from other financial institutions includes $318 (2013: $350) received from the Parent, Arab Bank plc and related parties.
[2]Loans and advances to customers includes $6,149 (2013: $8,476) received from related parties.

	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
Interest expense				
Payables to other financial institutions[1]	1,790	4,386	1,790	4,386
Deposits[2]	20,816	22,379	20,816	22,379
Debt securities issued	358	1,325	358	1,325
Subordinated debt[3]	2,279	2,376	2,279	2,376
Interest rate swaps	2,043	3,047	2,043	3,047
Total interest expense	**27,286**	**33,513**	**27,286**	**33,513**

[1]Payables to other financial institutions include $6,063 (2013: $39,391) paid to the Parent, Arab Bank plc and related parties.
[2]Deposits include $2,330 (2013: $2,870) paid to related parties.
[3]The subordinated debt represents total amounts due to the Parent, Arab Bank plc.

	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
Net interest income	**19,450**	**22,640**	**19,440**	**22,629**
Non-interest income				
Commission and other fees	2,322	2,537	2,322	2,537
Foreign exchange earnings	639	827	639	827
Cost of forward exchange contracts	(608)	(610)	(608)	(610)
Loss from financial assets at fair value through profit or loss – designated	-	(20)	-	(20)
Loss on disposal of property and equipment	(11)	-	(11)	-
Other	51	243	51	243
Total non-interest income	**2,393**	**2,977**	**2,393**	**2,977**
Operating income	**21,843**	**25,617**	**21,833**	**25,606**

5. Operating profit and expenses (continued)

Operating expenses

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Staff				
Salaries	12,217	12,262	12,217	12,262
Superannuation	1,277	1,213	1,277	1,213
Provision of employee entitlements	351	120	351	120
Training and education	178	163	178	163
Other	837	1050	837	1050
	14,860	**14,808**	**14,860**	**14,808**
Occupancy				
Rent	2,394	2,277	2,394	2,277
Other	824	785	824	785
	3,218	**3,062**	**3,218**	**3,062**
Depreciation and amortisation				
Fixture and fittings	247	290	247	290
Property and equipment	190	202	190	202
Amortisation of software	600	566	600	566
	1,037	**1,058**	**1,037**	**1,058**
Office expenses				
Marketing and communications	927	799	927	799
Postage and stationery	356	414	356	414
Subscriptions	302	337	302	337
Business Travel	221	323	221	323
Entertainment	161	148	161	148
Communications	16	68	16	68
Other	199	300	199	300
	2,182	**2,389**	**2,182**	**2,389**
Other				
Information system expenses	2,533	2,169	2,533	2,169
Service and consultation fees	1,340	1,101	1,340	1,101
Other	99	44	99	44
	3,972	**3,314**	**3,972**	**3,314**
Total operating expenses	**25,269**	**24,631**	**25,269**	**24,631**

6. Income tax

(a) Income tax expense

Recognised in the Statement of Profit or Loss

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
Current tax expense					
Current year		-	(50)	-	(53)
Adjustment for prior year under provision		-	1	-	1
		-	**(49)**	**-**	**(52)**
Deferred tax expense					
Recognition of tax losses*		(1,074)	-	(1,077)	-
Origination and reversal of temporary differences		(664)	(128)	(664)	(128)
Change in temporary differences from prior year		(5)	63	(5)	63
Movement in booked losses		84	-	84	-
Research and Development tax offset/rebate		-	(374)	-	(374)
		(1,659)	**(439)**	**(1,662)**	**(439)**
Total income tax credit in the Statement of Profit or Loss		**(1,659)**	**(488)**	**(1,662)**	**(491)**

*The tax loss does not expire under current tax legislation.

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
Recognised in other comprehensive income					
Derivatives (hedging reserve)	24	(279)	384	(279)	384
		(279)	**384**	**(279)**	**384**
Reconciliation between tax expense and pre-tax accounting profit:					
(Loss)/profit for the year		(4,216)	247	(4,223)	239
Total income tax benefit		(1,659)	(488)	(1,662)	(491)
Loss excluding income tax		**(5,875)**	**(241)**	**(5,885)**	**(252)**
Income tax benefit using the Company's domestic tax rate of 30%		(1,763)	(72)	(1,765)	(75)
Non-deductible expenses		24	22	24	22
Under-provided in prior years		(5)	(64)	(5)	(64)
Movement in booked losses		84	-	84	-
Research and Development tax offset/rebate		-	(374)	-	(374)
Current tax credit		**(1,659)**	**(488)**	**(1,662)**	**(491)**

(b) Deferred tax assets and liabilities

	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
Deferred tax assets arising from:				
Provision for employee entitlements	528	423	528	423
Property, Plant and Equipment	442	454	442	454
Derivative liability	784	506	784	506
Doubtful debts	4,274	3,565	4,274	3,565
Taxation of financial arrangements transition*	-	115	-	115
Tax loss carry forward	4,625	3,636	4,628	3,640
Research and Development tax offset	261	261	261	261
Other	287	312	287	312
Deferred tax assets	**11,201**	**9,272**	**11,204**	**9,276**
Other	(13)	(15)	(13)	(15)
Total deferred tax liabilities	**(13)**	**(15)**	**(13)**	**(15)**
Net tax assets	**11,188**	**9,257**	**11,191**	**9,261**

6. Income tax (continued)

*The Group mandatorily applied division 230 Taxation of financial arrangements (TOFA) on 1 January 2011 and elected to apply the rules retrospectively. TOFA more closely aligns the treatment of financial arrangements for accounting and tax recognition and consequently reduces the deferred taxes associated with these balances. Deferred tax balances that existed upon adoption of TOFA which no longer apply will reverse over a four year period from 1 January 2011 and are separately identified as "Taxation of financial arrangements transition".

(c) Movement in temporary differences during the year:

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Balance as at 1 January	9,257	9,620	9,261	9,624
Provision for employee benefits	105	36	105	36
Property, plant and equipment	(12)	21	(12)	21
Derivative liability*	279	(384)	279	(384)
Doubtful debts	709	163	709	163
Taxation of financial arrangements transition	(115)	(114)	(115)	(114)
Other assets	2	(36)	2	(36)
Derivative asset*	-	-	-	-
Tax loss carry forward	989	(300)	988	(300)
Other liabilities	(26)	(10)	(26)	(10)
R&D tax offset	-	261	-	261
Balance as at 31 December	**11,188**	**9,257**	**11,191**	**9,261**

*$929,000 (2013: $1,281,000) of the gross movement in derivative assets and liabilities was recognised in other comprehensive income. Refer to Note 24.

Capital losses	1,020	1,020	1,020	1,020

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 capital gains will be available against which the Group can utilise the benefits.

7. Receivables from other financial institutions

Australia				
Local banks	30,866	44,400	30,584	44,129
Overseas				
Parent and its related entities	448	2,952	448	2,952
Related parties	14	11	14	11
Foreign banks	25,598	7,268	25,598	7,268
	56,926	**54,631**	**56,644**	**54,360**

All receivables from other financial institutions are current and readily convertible to cash.

8. Financial assets at fair value through profit or loss - designated

Floating rate notes	-	5,039	-	5,039
	-	**5,039**	**-**	**5,039**

9. Financial assets – amortised cost

The Group holds bank acceptances, bonds and floating rate notes which it classifies as financial assets at amortised cost.

Investment in bonds	31,662	38,822	31,662	38,822
Floating rate notes	172,222	121,454	172,222	121,454
Bank acceptances	59,905	74,416	59,905	74,416
	263,789	**234,692**	**263,789**	**234,692**
Current	113,501	152,181	113,501	152,181
Non-current	150,288	82,511	150,288	82,511
	263,789	**234,692**	**263,789**	**234,692**

10. Derivative assets and liabilities

Each derivative is classified as "held for hedging", or as "other" derivatives. Derivatives classified as held for "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 Statement of Profit or Loss.

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 2014 the Company recognised a profit of $53,653 (2013: $19,193), 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).

During the year ended 31 December 2014 the Company did not sell any swaps designated in cash flow hedge relationships.

	2014			2013		
	Notional value $'000	Fair value asset $'000	Fair value liability $'000	Notional value $'000	Fair value asset $'000	Fair value liability $'000
Derivatives designated as cash flow hedges	47,000	-	(2,606)	56,000	-	(1,731)
Total derivative assets/(liabilities) held for hedging	**47,000**	**-**	**(2,606)**	**56,000**	**-**	**(1,731)**
Forward exchange contracts	-	-	-	21,295	190	(55)
Other derivatives	-	-	-	-	-	-
Total derivative assets/(liabilities)	**47,000**	**-**	**(2,606)**	**77,295**	**190**	**(1,786)**

11. Loans and advances to customers, net

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Commercial loans*	240,392	222,651	240,392	222,651
Housing loans – other**	231,135	208,023	231,135	208,023
Housing loans – owner occupied**	127,142	116,775	127,142	116,775
Overdrafts	28,942	29,165	28,942	29,165
Bills discounted	5,623	15,175	5,623	15,175
Gross loans and advances to customers	**633,234**	**591,789**	**633,234**	**591,789**
Less				
Provisions for impairment				
Specific provision	(11,798)	(9,436)	(11,798)	(9,436)
Collective provision	(2,447)	(2,447)	(2,447)	(2,447)
Provisions for impairment	**(14,245)**	**(11,883)**	**(14,245)**	**(11,883)**
Net loans and advances to customers	**618,989**	**579,906**	**618,989**	**579,906**
Current	193,529	178,020	193,529	178,020
Non-Current	425,460	401,886	425,460	401,886
	618,989	**579,906**	**618,989**	**579,906**

* This category includes capitalised commission received in advance of $530,453 (2013: $400,538).
** $36,558k of the housing loans is securitised. Refer to Note 13 for further details.

12. Provisions for impairment

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Specific provisions				
Opening balance	9,436	8,142	9,436	8,142
Specific loan impairment charges**	2,449	*1,980	2,449	*1,980
Bad debt write offs	(87)	(686)	(87)	(686)
Closing balance	**11,798**	**9,436**	**11,798**	**9,436**
Collective provisions				
Opening balance	2,447	3,200	2,447	3,200
Collective loan impairment charges	-	*(753)	-	*(753)
Closing balance	**2,447**	**2,447**	**2,447**	**2,447**
Total provisions for impairment	**14,245**	**11,883**	**14,245**	**11,883**

Collective provision is calculated in accordance with Note 3 (h).
*Total charge for debt provisions is $2,449k (2013: $1,227k).
** Included in interest income is $1,760k (2013: $911k) relating to income on impaired loans and advances to customers. This is fully provided for in the specific provision.

13. Securitisation

Securitisation is a funding, liquidity and capital management tool. It provides the Company with the option to liquidate a pool of assets and increase the Group's funding capacity.

During the year, the Company packaged equitable interests in residential mortgage backed loans and transferred these loans to the Petra Trusts (the "Trust") which was established to house these loans. The Trust issued Floating Rate Notes backed by the same loans and sold them back to the Company. The transfer does not qualify for derecognition and accordingly the loans continue to be presented in the Statement of Financial Position of the Company. The Company retains the risks and rewards of the loans as being the sole unit holder and beneficiary of the Trust.

On 18 September 2014, the Trust issued one Participation Unit and ten Residential Units at $10 each, to the Company. The Trust also issued Class A and B Notes of $33.8m and $6.6m, respectively which were purchased by the Company. The proceeds from the note issue were used to purchase residential mortgage loans of $38.1m from the Company. Both Class A and B Notes qualify for repurchase with the Reserve Bank of Australia.

The Trust is wholly owned by the Company and forms part of the consolidated group.

The table below presents assets securitised by the Group:

	2014 $'000
Residential mortgage loans (Note 11)	36,558
Cash and receivables from other financial institutions*	3,932
Balance at 31 December 2014	**40,490**

*Cash and receivables from other financial institutions are held by the Trustee, which have not yet been distributed to the note holder.

Any credit, market and liquidity risks arising from the internal securitisation transactions are captured and monitored in the Group's risk management framework and processes.

14. Shares in controlled entities

Details of the controlled entities are:

	Country of Incorporation	Interest %	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
Arab Australia Capital Markets Pty Ltd	Australia	100	-	-	70	70
Petra Trusts	Australia	100	-	-	-	-

Arab Australia Capital Markets Pty Ltd is a wholly owned Subsidiary and has not traded or employed any staff during the year. Its total assets and liabilities for the year ended 31 December 2014 are $291,834 (2013: $281,519) and $34,599 (2013: $31,505), respectively.

Petra Trusts is 100% owned entity, the purpose of which is to provide a contingency liquidity reserve facility.

15. Property and equipment

	Consolidated Plant & equipment $'000	Consolidated Fixtures & fittings $'000	Consolidated Total $'000	Company Plant & equipment $'000	Company Fixtures & fittings $'000	Company Total $'000
Cost						
Balance at 1 January 2013	2,335	5,165	7,500	2,335	5,165	7,500
Acquisitions	126	225	351	126	225	351
Disposals	-	-	-	-	-	-
Balance at 31 December 2013	**2,461**	**5,390**	**7,851**	**2,461**	**5,390**	**7,851**
Balance at 1 January 2014	**2,461**	**5,390**	**7,851**	**2,461**	**5,390**	**7,851**
Acquisitions	264	3	267	264	3	267
Disposals	(792)	(363)	(1,155)	(792)	(363)	(1,155)
Balance at 31 December 2014	**1,933**	**5,030**	**6,963**	**1,933**	**5,030**	**6,963**
Accumulated depreciation						
Balance at 1 January 2013	1,872	4,054	5,926	1,872	4,054	5,926
Depreciation for the year	202	290	492	202	290	492
Disposals	-	-	-	-	-	-
Balance at 31 December 2013	**2,074**	**4,344**	**6,418**	**2,074**	**4,344**	**6,418**
Balance at 1 January 2014	**2,074**	**4,344**	**6,418**	**2,074**	**4,344**	**6,418**
Depreciation for the year	191	246	437	191	246	437
Disposals	(786)	(363)	(1,149)	(786)	(363)	(1,149)
Balance at 31 December 2014	**1,479**	**4,227**	**5,706**	**1,479**	**4,227**	**5,706**
Carrying amount						
31 December 2013	**387**	**1,046**	**1,433**	**387**	**1,046**	**1,433**
31 December 2014	**454**	**803**	**1,257**	**454**	**803**	**1,257**

Assets not yet available for use are held in other assets until they can be transferred to property and equipment. Refer to Note 17 for additional information.

The cost of property and equipment which is fully depreciated and in use is $4,682k (2013: $5,545k).

16. Intangible assets

	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
Cost				
Opening balance	8,047	6,907	8,047	6,907
Acquisitions	557	1,140	557	1,140
Disposals	(10)	-	(10)	-
Closing balance	**8,594**	**8,047**	**8,594**	**8,047**
Amortisation				
Opening balance	6,496	5,930	6,496	5,930
Amortisation for period	600	566	600	566
Disposals	(5)	-	(5)	-
Closing balance	**7,091**	**6,496**	**7,091**	**6,496**
Carrying amounts	**1,503**	**1,551**	**1,503**	**1,551**

Intangible assets comprise computer software only. Costs relating to current software implementation projects not yet available for use are included in other assets (Note 17).

17. Other assets

	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
Expenses paid in advance	756	722	756	722
Refundable deposits*	305	297	305	297
Other, including software implementation project costs**	598	440	588	423
	1,659	**1,459**	**1,649**	**1,442**

* Refundable deposits include the funds pledged as a security for operational transactions.
**Included in other assets is $482k (2013: $266k) capitalised expenditure which will be transferred to Intangible assets once they are installed and available for use. These costs relate to software implementation projects in progress and are expected to transfer out of other assets within twelve months.

All other assets are current and due within one year.

18. Payables to other financial institutions

	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
Australia - ADIs*	17,997	18,425	17,997	18,425
Overseas				
Parent and its related entities	17,128	15,753	17,128	15,753
Related parties	475	361	475	361
Foreign banks	2,960	3,351	2,960	3,351
	38,560	**37,890**	**38,560**	**37,890**

* Authorised Deposit-taking Institutions
All payables to other financial institutions are current and due within one year.

19. Deposits

	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
Current	18,204	13,248	18,204	13,248
At call	339,001	296,909	339,001	296,909
Term	380,030	364,080	380,030	364,080
Savings	1,469	1,538	1,469	1,538
	738,704	**675,775**	**738,704**	**675,775**
Current	713,630	643,026	713,630	643,026
Non-Current	25,074	32,749	25,074	32,749
	738,704	**675,775**	**738,704**	**675,775**

20. Provision for employee entitlements

	Long service leave $'000	Annual leave $'000	Total $'000
Balance as at 1 January 2014	**565**	**844**	**1,409**
Provisions made during the year	299	840	1,139
Provisions used during the year	(32)	(756)	(788)
Balance as at 31 December 2014	**832**	**928**	**1,760**

21. Other liabilities

	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
Accrued expenses	1,410	1,498	1,410	1,498
Unearned income	9	142	9	142
Other*	742	558	711	527
	2,161	**2,198**	**2,130**	**2,167**

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

22. Subordinated debt

Subordinated debt	54,662	52,383	54,662	52,383

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.

23. Share Capital

Opening balance	62,500	62,500	62,500	62,500
Issue of ordinary shares	-	-	-	-
Closing balance	**62,500**	**62,500**	**62,500**	**62,500**

At 31 December 2014 the share capital comprised $62.5 million ordinary shares (2013: $62.5m). All issued shares are fully owned and paid by the parent Company, Arab Bank plc who is entitled to receive dividends if declared. The Company does not have authorised capital or par value in respect of its issued shares. All shares rank equally with regard to the Company's residual assets. No dividend has been declared since the start of the financial year (2013: $nil).

24. 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.

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Opening balance	(1,180)	(2,077)	(1,180)	(2,077)
Effective portion of changes in fair value of cash flow hedges	(929)	1,281	(929)	1,281
Deferred tax on cash flow hedging instruments (Note 6)	279	(384)	279	(384)
Closing balance	**(1,830)**	**(1,180)**	**(1,830)**	**(1,180)**

General Reserve for Credit Losses

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

The general reserve for credit losses is based on credit risk weighted assets, which excludes operational risk. This is considered more consistent with market practice.

Opening balance	**6,050**	**7,868**	**6,050**	**7,868**
Transfer from/(to) retained earnings	277	(1,818)	277	(1,818)
Closing balance	**6,327**	**6,050**	**6,327**	**6,050**
Total reserves	**4,497**	**4,870**	**4,497**	**4,870**

25. Retained earnings

Opening balance	**55,550**	**53,485**	**55,369**	**53,312**
Transfers from general reserve for credit loss	(277)	1,818	(277)	1,818
Net (loss)/profit	(4,216)	247	(4,223)	239
Closing balance	**51,057**	**55,550**	**50,869**	**55,369**

26. 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.

	2014 Consolidated		2013 Company	
	Carrying value $'000	Fair value $'000	Carrying value $'000	Fair value $'000
Assets				
Cash and cash equivalents	1,196	1,196	6,092	6,092
Receivables from other financial institutions	56,926	56,926	54,631	54,631
Financial assets at fair value through profit or loss – designated	-	-	5,039	5,039
Loans, advances and other receivables	618,989	621,961	579,906	581,306
Financial assets – at amortised cost	263,789	267,619	234,692	236,392
Derivative asset	-	-	190	190
Total financial assets measured at fair value	**940,900**	**947,702**	**880,550**	**883,650**
Liabilities				
Payables to other financial institutions	38,560	38,560	37,890	37,890
Deposits	738,704	740,711	675,775	676,879
Subordinated debt	54,662	54,662	52,383	52,383
Derivative liabilities	2,606	2,606	1,786	1,786
Total financial liabilities measured at fair value	**834,532**	**836,539**	**767,834**	**768,938**

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.

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 (foreign exchange contracts) was obtained from observable market data. The fair value of these instruments is disclosed in Note 10.

The Company uses a third party application to perform mark-to-market of its derivatives portfolio (interest rate swaps) at the end of each month. The application uses regression analysis to perform valuation and test the effectiveness of the hedges. From current year, the data used to perform the valuations is adjusted for credit risk.

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 utilising 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.

Financial assets – at amortised cost

The fair values for financial assets at amortised cost investments are determined using quoted market prices or dealer quotes for the same as similar securities or where a market price is not readily available, estimated discounted values of future cash flows.

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.

26. Fair value of financial instruments (continued)

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.

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).

There is no transfer between levels 1, 2 and 3 during the year.

31 December 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Cash and cash equivalents	-	1,196	-	1,196
Receivables from other financial institutions	-	56,926	-	56,926
Financial assets – at amortised cost	-	267,619	-	267,619
Loans and advances and other receivables	-	-	621,961	621,961
Total financial assets measured at fair value	**-**	**325,741**	**621,961**	**947,702**
Liabilities				
Payables to other financial institutions	-	38,560	-	38,560
Deposits	-	-	740,711	740,711
Subordinated debt	-	54,662	-	54,662
Derivative liabilities	-	2,606	-	2,606
Total financial liabilities measured at fair value	**-**	**95,828**	**740,711**	**836,539**
31 December 2013				
Assets				
Cash and cash equivalents	-	6,092	-	6,092
Receivables from other financial institutions	-	54,361	-	54,361
Financial assets at fair value through profit or loss – designated	-	5,039	-	5,039
Financial assets – at amortised cost	-	236,392	-	236,392
Loans and advances and other receivables	-	-	581,306	581,306
Derivative asset	-	190	-	190
Total financial assets measured at fair value	**-**	**302,074**	**581,306**	**883,380**
Liabilities				
Payables to other financial institutions	-	37,890	-	37,890
Deposits	-	-	676,879	676,879
Subordinated debt	-	52,383	-	52,383
Derivative liabilities	-	1,786	-	1,786
Total financial liabilities measured at fair value	**-**	**92,059**	**676,879**	**768,938**

27. Risk management

(a) Introduction and overview

The Group 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 rates 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.

There is no material difference between the Company and the Group risk disclosures. 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

Risk Management governance originates at Board level, and cascades through the Chief Executive Officer and businesses through the Risk Appetite Statement, policies and delegated authorities. The framework is designed to ensure Board level oversight and a clear segregation of duties between those who originate and those who approve risk exposures.

The Board Audit and Risk Committee oversees the Risk Management Systems Framework. This includes credit, market, liquidity and funding, operational, insurance, compliance (including regulatory), and reputational risks assumed by the Bank in carrying on its business. The Committee reviews regular reports from management on the measurement of risk and the adequacy and effectiveness of the Bank's risk management and internal control systems.

The Board Audit and Risk Committee helps formulate the Bank's Risk Appetite and Internal Capital Adequacy Assessment Process for consideration by the Board and makes recommendations to the Board on the risk management framework that is consistent with the approved risk appetite.

Strategic risks are governed by the Board, with input from the Board sub-committees. Tax and accounting risks are governed by the Board Audit and Risk Committee.

In November 2014 the Board elected to discontinue the Board Audit and Risk Committee and transferred the functions of the Committee to two separate committees being the Board Audit Committee and Board Risk Committee effective from 1 January 2015.

In addition, the Managing Director has established Executive Committees to manage key risks of the Bank, including the following:

- Executive Committee (EXCO);
- Asset & Liability Committee (ALCO);
- Executive Credit Committee (ECC);
- Operational Risk Committee (ORC); and
- Strategic Technology Enterprise Projects (STEP) Committee.

The Board reviews the Charter of each of the above Executive Committees.

(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 additional sign offs are required.

The portfolio is closely monitored by the Lending officers and any arrears are overseen on a continual basis by the Senior Recoveries Manager.

The Board of Directors has delegated responsibility for the management of credit risk to the Board Audit and Risk Committee ("BARC"). The Board has delegated credit approval authority to nominated Directors with BARC being advised of any decisions taken.

The status and grading of all balances is reported 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 ECC.

27. 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 review every 3 months.

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Carrying amount	**618,989**	**579,906**	**56,926**	**54,631**	**263,789**	**239,731**
Non performing loans						
Non performing loans	16,557	43,567	-	-	-	-
Provision for impaired (Note 12)	(11,798)	(9,436)	-	-	-	-
Grade G2 to H: Non Performing	**4,759**	**34,131**	**-**	**-**	**-**	**-**
Past due but performing						
0-30 days	29,690	24,410	-	-	-	
30-60 days	1,718	6,341	-	-	-	-
60-90 days	154	280	-	-	-	-
90-120 days	41	-	-	-	-	-
Over 120 days	1,511	-	-	-	-	-
Carrying Amount	**33,114**	**31,031**	**-**	**-**	**-**	**-**
Neither past due nor non performing	583,563	517,191	56,926	54,631	263,789	239,731
Carrying Amount	**621,436**	**582,353**	**56,926**	**54,631**	**263,789**	**239,731**
Less collective provision (Note 12)	(2,447)	(2,447)	-	-	-	-
Total carrying amount	**618,989**	**579,906**	**56,926**	**54,631**	**263,789**	**239,731**

Non performing loans

Non performing loans are loans for which the Group 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(h) for further details taken into consideration when assessing for evidence of impairment.

Provisions for impairment

The Group 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(h). The Group considers the value of security held and any other assets held by the borrower in assessing the estimated loss.

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

Past due but performing loans

Past due but performing loans are balances where the contractual interest or principal payments are past due, but the Group holds adequate security, or collateral, and the stage of collection is sufficient for the loan not to be impaired. If a relationship group has a loan past due for 90 days all related loans and balances are classified as past due in accordance with APRA guidance.

Loans with renegotiated terms

During the year the Group renegotiated the terms 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.

27. Risk management (continued)

(b) Credit risk (continued)

Collateral

The Group's loan portfolio is well secured. Collateral is held 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 initial borrowing and periodically reassessed including when the loan or advance becomes impaired

At balance sheet date, the Group's loan portfolio is secured as follows:

Carrying amount of loans and balances by security type	2014 $'000	2013 $'000
Cash	108	300
Commercial	310,992	282,243
Residential – Loan less than 60% of security value	58,243	65,128
Residential – Loan 61-80% of security value	229,828	205,124
Residential – Loan 81-90% of security value	14,341	15,400
Residential – Loan 91-100% of security value	8,200	6,788
Taxi plates	11,375	16,445
Unsecured	147	361
Total	**633,234**	**591,789**
Less collective provision	(2,447)	(2,447)
Less specific provision	(11,798)	(9,436)
Carrying amount of loans and balances	**618,989**	**579,906**

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

	Loan and advances to customers	
	2014 $'000	2013 $'000
Carrying amount	**618,989**	**579,906**
Concentration by economic sector:		
Property and business services	268,716	260,091
Construction	119,750	90,204
Retail and wholesale trade	63,865	63,730
Transport and storage	51,747	65,346
Cultural, recreational, personal and other services	49,704	50,297
Health and community services	27,174	18,867
Manufacturing	19,813	20,167
Finance and insurance	10,785	6,074
Other commercial and industrial	21,680	17,013
Gross loans and advances to customers	**633,234**	**591,789**
Collective provisions	(2,447)	(2,447)
Specific provisions	(11,798)	(9,436)
Net loans and advances to customers	**618,989**	**579,906**

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

27. Risk management (continued)

(b) Credit risk (continued)

Derivative exposures

The Group did not hold any derivative assets as at 31 December 2014 (2013: $190,456). All derivative assets held were with bank and financial institution counterparties.

The Group'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 Group 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 approved counterparty and transaction limits and monitored by the Market and Liquidity Risk team. Significant limits are subject to approval by the Board Credit delegates. All limits recorded against financial institutions are endorsed by the Arab Bank plc's Financial Institutions Division.

(c) Liquidity risk

Treasury maintains information about the projected cash flows from future business to ensure that sufficient liquidity is maintained in order for the Group to meet its obligations. In addition, the Group and its parent company Arab Bank plc continue to adopt a more conservative approach than required by the local regulatory authority (APRA) to ensure that the Group continues to meet its obligations.

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

Effective from 1 January 2015, APS 210 requires the calculation of the Liquidity Coverage Ratio (LCR). The LCR requires that the available high quality liquid assets exceed the net cash outflows.

The liquidity position is monitored and reported daily to the Bank's 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.

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 by ALCO and approval by the Board Risk Committee. A summary report including any exceptions and remedial action taken is submitted regularly to ALCO.

During the year, the Petra Trusts was established to hold mortgage backed loans in exchange for floating rate notes which can be repurchased to the Reserve Bank. The purpose of this internal securitisation is to provide a contingency liquidity reserve facility to meet any potential liquidity crisis that the Group may face due to internal or external factors.

The Group's liquidity remains strong and at 31 December 2014 its liquidity ratio exceeded APRA's minimum requirements and satisfied Arab Bank plc requirements.

The tables below for 2014 and 2013 break 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, from past experience deposits from customers are expected to remain stable or increase in balance.

31 December 2014 $'000's	Carrying Amount	Less than 1 month	1-3 months	3 months to 1 year	1-3 years	More than 3 years
Assets						
Cash and liquid assets	1,196	1,196	-	-	-	-
Receivables from other financial institutions	56,926	56,926	-	-	-	-
Loans and advances to customers, net	618,989	21,488	22,088	149,954	109,971	315,488
Financial assets - amortised cost	263,789	51,274	10,053	52,174	89,972	60,316
Total financial assets	**940,900**	**130,884**	**32,141**	**202,128**	**199,943**	**375,804**
Liabilities						
Payables to other financial institutions	38,560	25,342	9,087	4,131	-	-
Deposits	738,704	425,855	152,408	135,367	19,902	5,172
Derivatives	2,606	-	-	37	60	2,509
Subordinated debt	54,662	-	-	-	-	54,662
Total financial liabilities	**834,532**	**451,197**	**161,495**	**139,535**	**19,962**	**62,343**

27. Risk management (continued)

(c) Liquidity risk

31 December 2013 $'000's	Carrying Amount	Less than 1 month	1-3 months	3 months to 1 year	1-3 years	More than 3 years
Assets						
Cash and liquid assets	6,092	6,092	-	-	-	-
Receivables from other financial institutions	54,631	51,131	3,500	-	-	-
Financial assets at fair value through profit or loss – designated	5,039	-	-	5,039	-	-
Loans and advances to customers, net	579,906	68,958	28,444	80,618	105,614	296,272
Financial assets – amortised cost	234,692	70,381	11,300	70,500	46,980	35,531
Derivatives	190	190	-	-	-	-
Total financial assets	**880,550**	**196,752**	**43,244**	**156,157**	**152,594**	**331,803**
Liabilities						
Payables to other financial institutions	37,890	26,698	2,500	8,692	-	-
Deposits	675,775	317,513	152,738	172,775	21,347	11,402
Derivatives	1,786	55	-	291	85	1,355
Subordinated debt	52,383	-	-	-	-	52,383
Total financial liabilities	**767,834**	**344,266**	**155,238**	**181,758**	**21,432**	**65,140**

(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 Group 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 Group's trading portfolios for risk management purposes.

Overall authority for market risk is vested in the ALCO. The Market and Liquidity Risk team 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.

Interest Rate Risk

The primary form of interest rate risk for the Group 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, to Global Treasury department of the parent, Arab Bank plc, weekly and ALCO monthly.

The Basis Point Valuation (PV01) reporting measures the impact of a one basis point move in interest rates and quantifies the expected financial impact to the Group. The Board of Directors assigns a limit, endorsed by the Global Treasury department of the parent 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/decrease in the interest rate of 200 basis points above the average interest rate at 31 December 2014 would result in additional income of $2,752,932/$2,228,579 and a direct increase in Shareholders' equity of $2,375,000 (2013: increase/decrease of 200 basis points would result in additional income of $2,042,000/$596,000 and increase of Shareholders' equity $2,463,000).

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.

27. Risk management (continued)

(d) Market risk (continued)

Interest Rate Risk (continued)

The following tables represent the earlier of contractual repricing or maturity date as at 31 December 2014 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.

31 December 2014 $'000's	Carrying Amount	Less than 1 month	1-3 months	3 months to 1 year	1-3 years	More than 3 years
Assets						
Cash and cash equivalents	1,196	1,196	-	-	-	-
Receivables from other financial institutions	56,926	56,926	-	-	-	-
Loans and advances to customers, net	618,989	494,789	8,860	55,433	46,345	13,562
Financial assets at amortised cost	263,789	138,129	115,607	10,053	-	-
Total financial assets	**940,900**	**691,040**	**124,467**	**65,486**	**46,345**	**13,562**
Liabilities						
Payables to other financial institutions	38,560	37,060	1,500	-	-	-
Deposits	738,704	426,175	152,408	135,181	19,786	5,154
Subordinated debt	54,662	54,662	-	-	-	-
Total financial liabilities	**831,926**	**517,897**	**153,908**	**135,181**	**19,786**	**5,154**
Effect of derivatives	(47,000)	-	-	(15,000)	(15,000)	(17,000)
	61,974	**173,143**	**(29,441)**	**(84,695)**	**11,559**	**(8,592)**

31 December 2013 $'000's	Carrying Amount	Less than 1 month	1-3 months	3 months to 1 year	1-3 years	More than 3 years
Assets						
Cash and liquid assets	6,092	6,092	-	-	-	-
Receivables from other financial institutions	54,631	51,131	3,500	-	-	-
Financial assets at fair value through profit or loss – designated	5,039	-	-	5,039	-	-
Loans and advances to customers, net	579,906	464,303	13,185	35,299	61,162	5,957
Financial assets at amortised cost	234,692	191,392	41,300	2,000	-	-
Total financial assets	**880,360**	**712,918**	**57,985**	**42,338**	**61,162**	**5,957**
Liabilities						
Payables to other financial institutions	37,890	35,390	2,500	-	-	-
Deposits	675,775	317,790	161,238	165,549	21,296	9,902
Subordinated debt	52,383	52,383	-	-	-	-
Total financial liabilities	**766,048**	**405,563**	**163,738**	**165,549**	**21,296**	**9,902**
Effect of derivatives	(56,000)	(33,000)	(16,000)	(7,000)	-	-
	58,312	**274,355**	**(121,753)**	**(130,211)**	**39,866**	**(3,945)**

27. Risk management (continued)

(d) Market risk (continued)

Foreign Exchange risk - trading portfolios

The principal risk to which foreign exchange 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 Group trades predominately spot positions and some forward positions. Stop loss and total exposure limits are in place. A valuation of the trading book is undertaken on a daily basis and breaches of limits are notified to ALCO.

The details of the net foreign currency position are as follows:

	2014		2013	
	Base currency $'000	AUD $'000	Base currency $'000	AUD $'000
USD	(82)	(100)	(8)	(9)
GBP	35	67	5	9
EUR	(25)	(37)	2	3
JPY	-	-	1	-
CHF	1	1	5	6
Other currencies*	48	84	59	80
Total		**(15)**		**89**

*Various foreign currencies translated to AUD.

Sensitivity analysis

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

	Increase of 20% Profit/(loss) $	Decrease of 20% Profit/(loss) $
31 December 2014	(15,902)	23,852
31 December 2013	(11,453)	17,179

The foreign currency sensitivities set out 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, does 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.

(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 controls are monitored by ORC which meets on a monthly basis.

Incidents which resulted or may have resulted in a loss to the Group (excluding minor office errors) are recorded in the Incident Management System and reported to ORC.

The Group requires a minimum level of controls for all departments and 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 BARC.

The Group uses the Operational Risk Management Framework (ORMF) to describe its approach to identifying, assessing, controlling, and monitoring operational risk.

27. Risk management (continued)

(e) Operational risk (continued)

The ORMF consists of six modules:

1) Governance – to provide a clear structure and defined roles and responsibilities that support proactive oversight and monitoring of operational risk.
2) Risk and Control Self Assessment – to identify the business-as-usual operational risks that currently exist within the business or could be expected to occur within the next 12 months.
3) Control Self Assessment – to perform a test of key controls to validate the effectiveness of controls as identified in the Risk & Control Self Assessment.
4) Key Risk Indicators – to provide management with early warning indicators of changes to the organisation's risk profile.
5) Action Management – to develop remedial actions where the level of risk is above the Group's risk appetite.
6) Incident Management – to identify, assess, quantify, escalate, record, manage and report risk incidents that have occurred.

The Group implements the ORMF in accordance with the Three Lines of Defence approach to risk management, as follows:

- 1st Line (Business Units): Business line managers have primary responsibility for the day-to-day management of operational risk and bear the consequences of operational risk losses;
- 2nd Line (Operational Risk Management Team): Formulate high level operational risk policies and risk appetite, and provide oversight, challenge, and support to optimise the risk/reward trade-off; and
- 3rd Line (Internal Audit): Provide assurance to the Board of the overall effectiveness of internal controls.

(f) Capital management

Regulatory capital

The Group's 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's and the parent's, 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 to maintain investor, creditor and market confidence and to sustain future development of the business.

There have been no material changes to the Group's management of capital during the period. The Group adopted the mandatory capital requirements under Basel III from 1 January 2013. Under Basel III, the Bank is required to maintain a minimum Tier 1 capital, comprising common equity and retained earnings; and Tier 2 comprising subordinated debt and general reserve for credit losses.

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

- Tier 1 capital, 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, includes subordinated debt and the general reserve for credit losses. During the year, APRA approved the Bank's subordinated debt as fully qualifying Tier 2 capital. Prior to the approval, the subordinated debt was treated as transitional tier 2 capital which was required to be amortised on a straight line basis over 10 years. The regulatory value of the subordinated debt at 31 December 2014 was $50m (2013: $45m).

The Group has complied with all externally imposed capital requirements throughout the period under the Basel III.

27. Risk management (continued)

(f) Capital management (continued)

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

	2014 $'000	2013 $'000
Common equity Tier 1 / Tier 1 capital		
Ordinary share capital	62,500	62,500
Retained earnings	51,057	55,550
Less intangible assets and deferred tax assets	(12,745)	(10,645)
Total	**100,812**	**107,405**
Tier 2 capital		
General reserve for credit losses	6,327	6,050
Subordinated debt*	50,000	45,000
Total	**56,327**	**51,050**
Total regulatory capital	**157,139**	**158,455**
Risk-weighted assets	**702,558**	**673,884**

*The 2013 balance represents transitional subordinated debt amortised on a straight line basis over 10 years according to Basel III requirements. During the year, the Bank obtained approval from APRA to include the full $50m as tier 2 capital.

Capital ratios

	2014	2013
Total regulatory capital expressed as a percentage of risk weighted assets	22.37%	23.51%
Total common equity tier 1 / tier 1 capital expressed as a percentage of risk-weighted assets	14.35%	15.94%

Regulatory capital is managed on the Basel III standardised methodology. Capital adequacy is measured by means of a risk based capital ratio. The capital ratios reflect capital as a percentage of total risk weighted assets (RWA). RWA represents an allocation of risks associated with the Group's on and off balance sheet assets and other related exposures.

The Group's capital position is monitored on a continuous basis and reported monthly to ALCO. Capital forecasts are conducted periodically and a detailed capital and strategy plan is presented to the Board annually.

The Group's capital ratios throughout the 2014 and 2013 financial year were in compliance with both regulatory minimum capital requirements and the Board approved minimums.

The Group is required to inform the regulator immediately of any breach or potential breach of its minimum prudential capital adequacy requirements, including details of remedial action taken or planned to be taken.

28. Commitments for expenditure

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Future operating lease rentals not provided for and payable:				
Not later than one year	2,424	2,756	2,424	2,756
Later than one year but not later than two years	2,052	2,297	2,052	2,297
Later than two years but not later than five years	2,062	3,805	2,062	3,805
	6,538	**8,858**	**6,538**	**8,858**

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

During the financial year ended 31 December 2014 $2,962k was recognised as an expense in the Statement of Profit or Loss in respect of operating leases (2013: $2,542k).

29. Auditor's remuneration

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Audit services				
Audit of the financial report	254,750	240,930	254,750	240,930
Other regulatory audit services	9,660	14,700	9,660	14,700
	264,410	**255,630**	**264,410**	**255,630**
Non-audit services				
Other services	10,369	11,000	10,369	11,000
	10,369	**11,000**	**10,369**	**11,000**
	274,779	**266,630**	**274,779**	**266,630**

The Board Audit and Risk Committee has considered the non-audit services provided by Deloitte Touche Tohmatsu for the years ended 31 December 2014 and 2013 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.

30. 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 entities are:

Mr Geoffrey C E Wild AM	Chairman and Non Executive Independent Director
Ms Randa El Sadek	Deputy Chairman and Non Executive Director
Mr Ian G MacDonald	Non Executive Independent Director
Mr Leslie Taylor AM	Non Executive Independent Director
Mr Samer S H Al Tamimi	Non Executive Director
Ms Therese A S Batshon	Non Executive Director
Mr Joseph Rizk	Managing Director
Mr Bernard Buncle	Chief Financial Officer
Ms Helen Michael	Chief Operating Officer
Mr Christopher Mason*	Chief Risk Officer

*Resigned 30 January 2015

The key management personnel compensation included in "staff expenses" (see Note 5) are as follows:

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Short-term employee benefits*	1,703,508	1,703,235	1,703,508	1,703,235
Other long-term benefits	16,628	9,707	16,628	9,707
Post-employment benefits	159,557	156,158	159,557	156,158
	1,879,693	**1,869,100**	**1,879,693**	**1,869,100**

*Included in short term employee benefits is $121,703 (2013: $88,947) of annual leave for key management. Short term employee benefits are expected to be settled wholly within 12 months.

Other key management personnel transactions

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

30. Related parties (continued)

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 reimbursed Arab Bank plc for software and third party costs; 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 2014, the Company had total loans to key management of $85,761 (2013: $120,145) and deposits received from key management of $70,913 (2013: $100,804) which were under normal terms and conditions.

Ultimate controlling entity

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

31. 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		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
	Face value		Face value	
Credit risk related instruments				
Letters of credit confirmed in the normal course of business	73	269	73	269
Letters of Guarantee given in the normal course of business	35,653	62,178	35,653	62,178
Commitments to extend credit	184,061	149,925	184,061	149,925

Letters of guarantee given in the normal course of business include guarantees for $31,401,000 (2013: $55,381,000) which are cross guaranteed by the ultimate controlling entity, Arab Bank plc.

32. 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.

33. Notes to the statements 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		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Cash	1,196	6,092	1,196	6,092
Receivables from other financial institutions*	56,815	54,631	56,815	54,360
Short term deposits	-	(3,643)	-	(3,372)
	58,011	**57,080**	**58,011**	**57,080**

*$3,932k is securitised assets. Refer to Note 13 for further details.

33. Notes to the statements of cash flows (continued)

(b) Reconciliation of net profit to net cash (used in)/ provided by operating activities

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
(Loss)/Profit for the period	**(4,216)**	**247**	**(4,223)**	**239**
Add/(less) items classified as investing/financing activities				
Loss on disposal of property and equipment	11	-	11	-
Add/(less) non-cash items				
Depreciation	437	492	437	492
Amortisation of intangibles	600	566	600	566
Amortisation of mortgage establishment fees	71	(137)	71	(137)
FX loss/(gain)	-	(224)	-	(224)
Increase in provisions for doubtful debts	2,449	1,227	2,449	1,227
Unrealised gain on hedging revaluations	81	(228)	81	(228)
Movement in financial assets at fair value through profit or loss – designated	-	(126)	-	(126)
Changes in assets and liabilities				
Change in prepayments	(33)	(53)	(33)	(53)
Change in interest receivable	(254)	3,121	(244)	3,125
Change in interest payable	2,377	1,971	2,377	1,972
Change in other liabilities	(119)	(1,187)	(132)	(1,191)
Change in income tax payable	124	639	124	633
Change in deferred tax balance	(1,665)	(22)	(1,665)	(22)
Change in employee provisions	351	120	351	120
Net cash provided by operating activities	**214**	**6,406**	**204**	**6,393**

(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;
(iii) balances due to and from other financial institutions;
(iv) statutory deposits; and
(v) investment securities.

34. 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.

Director's Declaration

for the year ended 31 December 2014

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

1. The financial statements and notes, set out on pages 19 to 64, 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 entities as at 31 December 2014 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 and consolidated entities will be able to pay its debts as and when they become due and payable.

3. The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 December 2014.

4. The directors draw attention to note 2(a) to the consolidated financial statements which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Joseph Rizk
Director

Geoffrey C E Wild AM
Chairman

Dated at Sydney this 4th day March 2015

Locations and branches

International presence

JORDAN
ALGERIA
BAHRAIN
CHINA
EGYPT
FRANCE
GERMANY
ITALY
KAZAKHSTAN
LEBANON
LIBYA
MOROCCO
OMAN
PALESTINE
QATAR
SAUDI ARABIA
SINGAPORE
SOUTH KOREA
SUDAN
SYRIA
SWITZERLAND
TUNISIA
TURKEY
UAE
UNITED KINGDOM
USA
YEMEN

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Sydney NSW 2000
Telephone (02) 9377 8900

Australian branches

Sydney

Suite 1, Ground Floor, 51-57 Pitt Street,
Sydney NSW 2000
Lending
Telephone (02) 9599 9633
Customer Service
Telephone (02) 9377 8942

Bankstown

Cnr Restwell Street & South Terrace
Bankstown NSW 2200
Lending
Telephone (02) 9707 3955
Customer Service
Telephone (02) 9707 3755

Parramatta

74 Macquarie Street
Parramatta NSW 2150
Lending
Telephone (02) 9689 3500
Customer Service
Telephone (02) 9893 7633

Rockdale

506 Princes Highway
Rockdale NSW 2216
Lending
Telephone (02) 9599 9633
Customer Service
Telephone (02) 9597 1122

Westmead

Shop T205, Westmead Hospital
Cnr Hawkesbury and Darcy Roads
Westmead NSW 2145
Lending
Telephone (02) 9689 3500
Customer Service
Telephone (02) 9687 6800

Coburg

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Lending
Telephone (03) 9355 8862
Customer Service
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