Supporting Growth and Development in the Australian Community.

Annual Report 2015

Arab Bank Australia

Chairman's Report

Mr Geoffrey C E Wild AM

In 2016 we reach our thirty year milestone of providing exceptional relationship banking to the Australian community in our key focus areas of Western Sydney and Metropolitan Melbourne. We are proud to be a member of a well regarded global group and remain true to our heritage, well capitalised and highly liquid.

We consistently give back to the communities we serve and are welcoming the opportunity to partner with our existing and future customers as they maximise the opportunities from federal and state government investment in our key geographical areas.

The encouraging growth in the portfolio in 2015 and the high quality of our lending book are supporting the continuous improvement in our financial performance.

We are proud of the gender and ethnic diversity of our team members. Collectively we have 49.6% male to 50.4% female team members with a good proportion of female representation across all tiers of the organisation.

I would like thank everyone at Arab Bank Australia for their continued efforts and our loyal and growing customer base for their continued support.

Geoffrey C E Wild AM
Chairman

Managing Director's Report

Mr Joseph Rizk OAM

This year we are celebrating over 30 years of providing exceptional service to our customers in Australia. Over this time we are proud to have built and maintained a strong affinity with our community and the areas in which they choose to work and live. Our commitment to relationship banking and personal service is a key strength and we greatly value our loyal and expanding customer base, as demonstrated by the 21% growth in our loan portfolio achieved in 2015.

We expect the significant planned and proposed federal government infrastructure projects in Sydney and Melbourne to provide increased economic prosperity for our customers and we are proudly partnering with key thought leaders in these areas to support our customers and community in maximising opportunities.

Arab Bank Australia is committed to the best practice fundamentals of banking as demonstrated by our strong liquidity and capital ratios. This is consistent with our parent, Arab Bank Plc and it's wider highly regarded financial institution group which has operated within some of the most challenging environments across the globe since 1930.

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

Joseph Rizk OAM
Director

Arab Bank Australia Limited Business Overview

Business Development

The Bank has continued to drive business development in a number of sectors and, as a result, achieved net growth of 21% in the loan portfolio. This has been supported by continued investment in improving the staff skill sets through tailored training and sales coaching, as well as a number of initiatives targeted at particular industries and sectors, all in the context of actual and anticipated growth in certain asset classes, namely, commercial, construction, residential and trade.

In 2015, the Bank continued to focus on the significant opportunities that are starting to, and will continue to, arise from investment by the Federal and State Governments in infrastructure in Western Sydney and Melbourne. The Bank's long- term presence in Western Sydney, coupled with ongoing investment in increasing its brand profile in this region to position the Bank as a strategic partner and focus of knowledge, have been significant drivers in generating increased volumes of business for the Bank.

In addition to its domestic business and the improved exchange rate for exporters, the Bank has seen increased activity in its trade finance portfolio and welcomes the increased focus by the Federal and State Governments which we anticipate to benefit our customers with trading requirements in the Middle East and North Africa region. The Bank is proud to be a member of a global group which are recognised as a leading provider of trade finance in this region.

The Bank is consistently looking at ways to better service its customers and align itself with their needs, which includes maintaining a responsive business model which can respond to our customers' evolving core needs. To this end, the Bank made the decision to close its Campsie and Auburn branches in 2015, in line with changing demographics and the increased usage of online capabilities, ensuring an effective and relevant branch network.

Customer Service Enhancements

The Bank is successfully utilising its automatic, straight-through-processing loan origination system to grow its retail lending portfolio, and this has resulted in a number of efficiencies and cost savings in terms of processing and approving home loans. The Bank also successfully introduced a mortgage offset feature, which will allow customers to make significant savings on their home loan repayments.

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.

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 90% and liquid asset investments constituting close to 25% of total assets. The bank is under the Basel III Liquidity Coverage Ratio regime (commenced January 2015) and at all times is in excess of APRA and board requirements in our holdings of high quality liquid assets.

Foreign exchange activity continues to grow for the Bank's expanding niche customer base and the Bank seeks to maintain competitive customer exchange rates on a consistent basis in not only the major currencies but also specialising in the local currencies of the Middle East.

Technology and Projects

The Bank's technology and project office delivered a number of initiatives designed to improve the Bank's income generating capability and reduce the costs of doing so. These included delivery of a collaboration and document management solution, tablets, mobile loan origination and a new loan product. Given the evolving threat landscape, a focussed review of IT security was undertaken to ensure the Bank is well positioned to protect its customers' information. Through the re-negotiation of contracts with the Bank's major suppliers and rationalisation of the application portfolio significant and sustainable cost savings were also achieved in 2015.

Operations

In the course of 2015 we have continued to refine our processes to sustain the deliverance of exceptional customer service both now and in the future. We have broadened our customer service footprint through additional ATMs and online capabilities in addition to our existing branch network, fee free transactions through Westpac group ATM's and deposit taking services through the NAB and Australia Post network.

Risk Management

The bank is committed to maintaining a robust risk management framework and has built and maintained sound credit risk policies which have resulted in lower risk, a diversified loan portfolio and significant improvement in non-performing loans and provisioning requirements.

The Board is committed to ensuring that the Bank has a sound risk culture.

Compliance Framework

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

The Bank's compliance risk management program is designed to ensure the Bank's operations are aligned with applicable governing laws and regulations, whilst keeping the process customer- focused. As existing risks evolve and new risks emerge, initiatives are applied in co-ordination between the compliance function and the lines of business to manage obligations and responsibilities.

In combatting financial crime, the Bank's approach has been a process of continual improvement of the overall process for detecting unusual activity and proactively increasing awareness and skillsets of staff among the front line and the support function.

Human Resources

With significant focus on Health & Safety in the workplace and the changes in legislation, the bank has formalised its 'Health & Wellbeing' program with the introduction of a number of 'Lunch & learn' sessions throughout the year, focusing on how to stay healthy and create a better work life balance. The Health & Wellbeing program also provides free flu vaccinations for all staff, along with the sponsoring of a number of different sporting initiatives where ABAL staff are invited and encouraged to participate, such as the 'Steptember' initiative run held by the Cerebral Palsy Foundation. The Bank is also experiencing a more stable workforce with a decrease in labour turnover a third year in a row. 51% of our employees have now had five years or more tenure with the company which strengthens our position in relation to knowledge and expertise not being lost. Overall the gender diversity within the company is fairly equal with 49.6% of staff being male and 50.4% female and this is fairly consistent across all levels of the organisation.

Community Support

In 2015, Arab Bank Australia sustained its on-going commitment to supporting wider community causes through the financial support of medical research, the arts, education and a number of charities and causes. The Bank continues to uphold its core philosophy of 'supporting the communities we serve'. The primary focus for community involvement is the Bank's ability to make a significant and identifiable difference to an organisation or cause.

Corporate Governance Statement

for the year ended 31 December 2015

2015 marked 15 years of support for the Westmead Medical Research Foundation and 7 years for My Westmead. The Bank intends on providing continued support to My Westmead and its future initiatives in 2016.

The Bank also maintained its sponsorship of the Art Gallery Society of New South Wales' Learning Curve Lecture Series for the sixth year in a row. With the Bank's support, these lecture series offer members and visitors a unique opportunity to learn about art appreciation, philosophy, ancient civilisations and many great cultures of the world. 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. 2015 also witnessed the Bank taking a closer focus on Western Sydney and the Greater West. Support included being the major sponsor of the Western Sydney First– Sydney Business Chamber Breakfast Series in 2015 held every quarter and a sponsor of the Western Sydney Airport Conference Report Co-Sponsorship for Dr Kasarda's 'Aerotropolis' report.

The Bank's support throughout 2015 contributed to generating greater brand awareness and building a positive reputation within the community, a reputation of goodwill for our brand. Arab Bank Australia hopes to continue its support throughout 2016, with our focus being to follow through our philosophy and continue to grow the Bank's brand through supporting various community initiatives. 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 come into effect on 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;
  - 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 major corporate initiatives;
  - approving capital expenditure in excess of limits delegated to management;
  - 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;

  - 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;
  - monitoring the performance of management directly, and through its Committees; and
  - carrying out the functions specifically reserved for the Board and its Committees under the policies of the Board and consistent with the charters of those Committees.
- Approval of documents (including reports and statements to the shareholder) required by the Bank's Constitution, the Corporations Act 2001 and other applicable laws and regulations;
- All aspects of the appointment of the Managing Director, including nomination to the shareholder;
- 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 administr
- 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 (BRemC), 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.

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.

Board Composition

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.

Corporate Governance Statement (continued)
for the year ended 31 December 2015

Board Composition (continued)

Membership of the Board consists of:

Non-executive Independent Chair
Geoffrey C E Wild AM

Non-executive
Therese A S Batshon

Non-executive Deputy Chair
Randa El Sadek

Non-executive
Saleem J S Shadeed

Non-executive Independent
Ian G MacDonald

Executive
Joseph Rizk OAM

Non-executive Independent
Leslie E Taylor AM

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 7 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 2015 were:

Board Risk Committee (BRC)
Board Audit Committee (BAC)
Board Remuneration Committee (BRemC)
Board Credit Delegation (BCD)

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 Risk Committee ("BRC")

Membership of the BRC consists of:

Ian G MacDonald (Chair)
Geoffrey C E Wild AM
Leslie E Taylor AM
Therese A S Batshon
Saleem J S Shadeed

The BRC's primary responsibility is to provide the Board with objective non-executive oversight of the implementation and ongoing operation of the Bank's risk management frameworks (covering credit, liquidity, market and operational risk), compliance matters and any other matters referred to it by the Board.

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

- The BRC is to be comprised of at least three directors. The directors must be entirely non-executive directors.
- The Managing Director must not be a member of the BRC.
- A majority of members must be independent of management and free of any relationship, which could interfere with their independent judgment.
- The Chair of the BRC is appointed by the Board and must not be the same person as the Chair of the Board. The Chair must be an independent director. The Chairperson of the Board Audit Committee may also chair the Board Risk Committee.
- The Managing Director, the Chief Financial Officer, Executive Manager Internal Audit, and legal advisors will attend meetings by invitation.
- A standing invitation is made to all Directors of the Board and the Chief Risk Officer to attend the Committee meetings.
- The Chief Risk Officer has a direct reporting line to the Board Risk Committee.

Board Audit Committee ("BAC")

Membership of the BAC consists of:

Leslie E Taylor AM (Chair)
Geoffrey C E Wild AM
Ian G MacDonald
Therese A S Batshon
Saleem J S Shadeed

The BAC's primary responsibilities is to assist the Board in fulfilling their fiduciary and statutory responsibilities by providing an objective non-executive review of the effectiveness of the external reporting of financial and non-financial information, tax and accounting risks, the internal control framework, Australian Prudential Regulation Authority (APRA) risk management frameworks (covering credit, liquidity, market and operational risk), and the independence and effectiveness of audit activities.

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

- The BAC is to be comprised of at least three directors. The directors must be entirely non-executive directors with a majority of independent 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 BAC.
- The Board determines the terms of membership.
- The Chair of the BAC is appointed by the Board and must not be the same person as the Chair or Deputy Chairman of the Board. The Chair must be an independent director.
- The Managing Director, the Chief Financial Officer, Executive Manager Internal Audit, the Chief Risk Officer, and legal advisor will attend meetings by invitation.
- A standing invitation to attend the meetings of the Committee is to be extended to the external auditor.
- A standing invitation is made to all Directors of the Board to attend the Committee meetings.
- At least once a year, the BAC will separately meet the external auditor and the Executive Manager Internal Audit independently of management.

Under Prudential Standard CPS510 Governance, the BAC is responsible for ensuring the adequacy and independence of the external auditor. These responsibilities are fulfilled by a number of specific tasks, including:

- Nominating the external auditor to the Board for appointment by the shareholder. Deloitte Touché 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 BAC will assess on at least an annual basis, the independence, fitness and propriety of the external auditors.
- Audit fees are reviewed by the BAC 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 BAC 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 the BAC meeting when the annual accounts are reviewed. However, the external auditor may also raise matters directly with the Board.
- The BAC in relation to dealing with the independence of the external auditor, inter alia, has adopted the practice of meetings between the BAC chairman and the auditor in the absence of management.
- The BAC 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 judgement by management are specifically reviewed by the BAC and reported on by the BAC to the Board.
- The policy governing the provision of non-audit services by the external auditors is set out in the BAC 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 BAC is responsible for the oversight of management in the preparation of the Bank's financial statements and financial disclosures. The BAC 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 ("BRemC")

Membership of the BRemC 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*
Therese A S Batshon**

*Resigned on 22nd April 2015
**Appointed to committee on 22nd April 2015

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.

Corporate Governance Statement (continued) for the year ended 31 December 2015

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.

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 OAM

Directors' Report

for the year ended 31 December 2015

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 2015, 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 Committee, Board 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 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 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 Ellenborough 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 Board Risk Committee and a member of the Board Audit Committee and Board Credit Delegation.

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.

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.

Mr Saleem J S Shadeed
Non Executive Director

Mr Shadeed has been a member of the Board since 22 April 2015.

He is a member of the Board Audit Committee and Board Risk Committee.

Mr Shadeed is Vice President - Credit: International and Subsidiaries Division for Arab Bank plc and has over 20 years of banking experience. He has a Masters Degree in Business Administration.

Directors' Report (continued)
for the year ended 31 December 2015

Mr Joseph Rizk OAM
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.

Mr Samer S H Al Tamimi
Non Executive Director

Mr Al Tamimi was a member of the Board from 4 June 2007 until his resignation on 22 April 2015.

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	4
Leslie E Taylor AM	4	4
Ian G MacDonald	4	4
Therese Batshon	4	4
Saleem J S Shadeed	3*	3
Joseph Rizk OAM	4	4
Samer S H Al Tamimi	1**	1

*Appointed 22nd April 2015
**Resigned 22nd April 2015

Committee Meetings

Risk Committee

Director	Meetings Held	Meetings Attended
Geoffrey C E Wild AM	6	6
Randa El Sadek	6	4#
Leslie E Taylor AM	6	6
Ian G MacDonald	6	6
Therese Batshon	6	6
Saleem J S Shadeed	4**	4
Samer S H Al Tamimi	2***	2

Audit Committee

Director	Meetings Held	Meetings Attended
Geoffrey C E Wild AM	4	4
Randa El Sadek	4	4#
Leslie E Taylor AM	4	4
Ian G MacDonald	4	4
Therese Batshon	4*	4
Saleem J S Shadeed	3**	3
Samer S H Al Tamimi	1***	1

Remuneration Committee

Director	Meetings Held	Meetings Attended
Geoffrey C E Wild AM	3	3
Randa El Sadek	3	3
Ian G MacDonald	3	3

#Non-member attendee
*Appointed to committee 15th January 2015
**Appointed to committee 22nd April 2015
***Resigned from committee 22nd April 2015

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 $1,992,000 (2014: $5,875,000).

The consolidated loss after income tax credit of $475,000 (2014: $1,659,000) was $1,517,000 (2014: $4,216,000).

Auditor's independence

The lead auditor's independence declaration is set out on page 15 to 16 and forms part of the Directors' report for the year ended 31 December 2015.

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 Touché 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.

Directors' Report (continued)
for the year ended 31 December 2015

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 2015 (2014: Nil).

Review of operations

The challenging environment noted in last year's report continued unabated in 2015. Despite this, the loan book grew by an outstanding 19.2% year on year with commercial loans increasing by 29.3% and residential loans by 15.1%. This growth has assisted the Bank in returning to profitability in the last quarter of the year. Competition remains high amid dampened consumer confidence coupled with a low interest rate and low economic growth environment. The Bank was able to hold interest rate margins in the face of strong competition and the new capital rules introduced by the regulator to redress the unequal capital treatment for residential mortgages for the four majors will assist continued growth in this sector. These conditions are expected to continue into 2016 where the bank will continue to grow but at a lower rate. Operating income improved in 2015 particularly foreign exchange income due to the lower AUD which lead to increased transaction volumes. Costs continue to be contained, assisted by 2 branch closures which were strategically replaced by office suites with minimal disruption to customers. The Bank continues to make systems improvements to increase efficiencies and improve product delivery. Impairment charges have been significantly reduced reflecting the improvement in the credit quality of the lending book. Liquidity remains 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 OAM	**Leslie E Taylor AM**
Director	Director

Dated at Sydney this 2nd day of March 2016

Independent Auditor's Report

to the members of Arab Bank Australia Limited

Report on the financial report

We have audited the accompanying financial report of Arab Bank Australia Ltd, which comprises the statement of financial position as at 31 December 2015, 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 18 to 72.

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 2015 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

DELOITTE TOUCHE TOHMATSU

Graham Mott
Partner
Chartered Accountants

Sydney, 2 March 2016

Lead Auditor's 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 2015, 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

DELOITTE TOUCHE TOHMATSU

Graham Mott
Partner
Chartered Accountants

2 March 2016

Financial Statements

for the year ended 31 December 2015

Contents

Statement of profit or loss

for the year ended 31 December 2015

	Note	Consolidated 2015 $'000	Consolidated 2014 $'000	Company 2015 $'000	Company 2014 $'000
Interest income	4	44,874	46,736	44,867	46,726
Interest expense	4	24,412	27,286	24,412	27,286
Net interest income		**20,462**	**19,450**	**20,455**	**19,440**
Non-interest income	4	**3,356**	**2,393**	**3,356**	**2,393**
Operating income		**23,818**	**21,843**	**23,811**	**21,833**
Loan impairment charges	7	1,010	2,449	1,010	2,449
Operating expenses	4	24,800	25,269	24,800	25,269
Loss before income tax credit		**(1,992)**	**(5,875)**	**(1,999)**	**(5,885)**
Income tax credit	5(a)	(475)	(1,659)	(477)	(1,662)
Net loss		**(1,517)**	**(4,216)**	**(1,522)**	**(4,223)**

The Statement of Profit or Loss is to be read in conjunction with the notes to the financial statements set out on pages 25 to 71.

Statement of Comprehensive Income

for the year ended 31 December 2015

	Note	Consolidated		Company	
		2015 $'000	2014 $'000	2015 $'000	2014 $'000
Loss for the period		**(1,517)**	**(4,216)**	**(1,522)**	**(4,223)**
Other comprehensive income/(loss)					
Items that may be reclassified subsequently to the Statement of Profit or Loss					
Effective portion of changes in fair value of cash flow hedges	15	150	(929)	150	(929)
Other comprehensive income/(loss) before income tax		**150**	**(929)**	**150**	**(929)**
Income tax (expense)/ credit charged directly to other comprehensive income	5(a)	(45)	279	(45)	279
Other comprehensive income/(loss) for the period, net of income tax		**105**	**(650)**	**105**	**(650)**
Total comprehensive loss for the period		**(1,412)**	**(4,866)**	**(1,417)**	**(4,873)**
Total comprehensive loss attributable to owners of the Company		**(1,412)**	**(4,866)**	**(1,417)**	**(4,873)**

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 25 to 71.

Statement of Financial Position

for the year ended 31 December 2015

	Note	Consolidated		Company	
		2015 $'000	2014 $'000	2015 $'000	2014 $'000
Assets					
Cash	17	2,362	1,196	2,362	1,196
Receivables from other financial institutions	18	72,399	56,926	72,104	56,644
Loans and advances to customers, net	6	751,801	618,989	751,801	618,989
Financial assets – at amortised cost	8	184,801	263,789	184,801	263,789
Shares in controlled entities	22	-	-	70	70
Property and equipment	23	935	1,257	935	1,257
Intangible assets	19	1,480	1,503	1,480	1,503
Deferred tax assets	5(b)	11,618	11,188	11,623	11,191
Other assets	20	1,738	1,659	1,733	1,649
Total assets		**1,027,134**	**956,507**	**1,026,909**	**956,288**
Liabilities					
Payables to other financial institutions	10	35,590	38,560	35,590	38,560
Derivative liabilities	9	2,659	2,606	2,659	2,606
Deposits	11	811,881	738,704	811,881	738,704
Provisions for employee entitlements	24	1,466	1,760	1,466	1,760
Other liabilities	21	2,212	2,161	2,180	2,130
Subordinated debt	12	56,684	54,662	56,684	54,662
Total liabilities		**910,492**	**838,453**	**910,460**	**838,422**
Net assets		**116,642**	**118,054**	**116,449**	**117,866**
Equity					
Share capital	14	62,500	62,500	62,500	62,500
Reserves	15	4,602	4,497	4,602	4,497
Retained earnings	16	49,540	51,057	49,347	50,869
Total equity		**116,642**	**118,054**	**116,449**	**117,866**

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 25 to 71.

Statement of Changes in Equity

for the year ended 31 December 2015

	Note	Share capital $'000	Hedging reserve $'000	General reserve for credit losses $'000	Retained earnings $'000	Total $'000
Consolidated						
For the year ended 31 December 2015						
Balance as at 1 January 2015		**62,500**	**(1,830)**	**6,327**	**51,057**	**118,054**
Loss for the period	16	-	-	-	(1,517)	(1,517)
Other comprehensive income	15	-	105	-	-	105
Total comprehensive loss for the period		**-**	**105**	**-**	**(1,517)**	**(1,412)**
Balance as at 31 December 2015		**62,500**	**(1,725)**	**6,327**	**49,540**	**116,642**
Company						
For the year ended 31 December 2015						
Balance as at 1 January 2015		**62,500**	**(1,830)**	**6,327**	**50,869**	**117,866**
Loss for the period	16	-	-	-	(1,522)	(1,522)
Other comprehensive income	15	-	105	-	-	105
Total comprehensive loss for the period		**-**	**105**	**-**	**(1,522)**	**(1,417)**
Balance as at 31 December 2015		**62,500**	**(1,725)**	**6,327**	**49,347**	**116,449**

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 25 to 71.

Statement of Changes in Equity

for the year ended 31 December 2015

	Note	Share capital $'000	Hedging reserve $'000	General reserve for credit losses $'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**
Loss for the period	16	-	-	-	(4,216)	(4,216)
Other comprehensive loss	15	-	(650)	-	-	(650)
Total comprehensive loss for the period		**-**	**(650)**	**-**	**(4,216)**	**(4,866)**
Transfer from credit reserve to retained earnings	15	-	-	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**
Loss for the period	16	-	-	-	(4,223)	(4,223)
Other comprehensive loss	15	-	(650)	-	-	(650)
Total comprehensive loss for the period		**-**	**(650)**	**-**	**(4,223)**	**(4,873)**
Transfer from credit reserve to retained earnings	15	-	-	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 25 to 71.

Statement of Cash flow

for the year ended 31 December 2015

	Note	Consolidated		Company	
		2015 $'000	2014 $'000	2015 $'000	2014 $'000
Cash flows from operating activities					
Interest received		45,429	46,284	45,429	46,274
Fees, commission and other non-interest received		3,329	2,608	3,329	2,608
Interest paid		(23,531)	(24,764)	(23,531)	(24,764)
Income tax refund received		-	118	-	118
Amounts paid to employees and suppliers		(24,093)	(24,032)	(24,093)	(24,032)
Net cash from operating activities	**17(b)**	**1,134**	**214**	**1,134**	**204**
Cash flows from investing activities					
Proceeds from maturity and sale of financial assets at amortised cost		78,706	(28,855)	78,706	(28,855)
Loans, advances and bills discounted issued or extended		(133,875)	(41,375)	(133,875)	(41,375)
Purchase of property and equipment		(790)	(1,117)	(790)	(1,117)
Amount received upon maturity of dues from other financial institutions		-	3,500	-	3,510
Proceeds from financial assets at fair value through profit or loss – designated		-	5,000	-	5,000
Net cash used in investing activities		**(55,959)**	**(62,847)**	**(55,959)**	**(62,837)**
Cash flows from financing activities					
(Payments)/receipts on dues to other financial institutions		(2,900)	848	(2,900)	848
Deposits received		74,355	62,716	74,355	62,716
Net cash from financing activities		**71,455**	**63,564**	**71,455**	**63,564**
Net increase in cash and cash equivalents		16,630	931	16,630	931
Cash and cash equivalents at the beginning of the financial year		58,011	57,080	58,011	57,080
Cash and cash equivalents at the end of the financial year	**17(a)**	**74,641**	**58,011**	**74,641**	**58,011**

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 25 to 71.

Basis of Financial Statements Preparation

This section outlines the Group's (definition is set out in Note 1 general information) accounting policies that relate to the financial statements and the notes to the accounts. Where a particular accounting policy relates to a specific balance or transaction, such accounting policy is contained in the relevant note. This section also describes the new accounting standards, amendments and interpretations that are effective in 2015 or later years and how these are expected to impact the Group's consolidated financial statements.

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.

The Company established the Petra Trusts (referred to as the "Trust") which is a Residential Mortgage Backed Internal 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 2015, comprise the Company and its Subsidiaries, Arab Australia Capital Markets Pty Ltd and the Petra Trusts, (referred to as the "Group" or the "Consolidated entities"). Arab Bank plc is the ultimate controlling entity.

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

2. Summary of significant accounting policies

(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 2nd March 2016.

(b) Significant accounting policies

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value.

The Group's accounting policies which relate to a specific account balance or transaction are disclosed within the relevant notes. Whereas accounting policies which have an impact on the financial statements as a whole are set out below.

(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 7 – Provisions for impairment
Note 25 – Fair value of financial instruments
Note 5 – Income tax- deferred tax assets

2. Summary of significant accounting policies (continued)

(e) Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and all entities controlled by the Bank. 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.

(f) 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.

3. Application of new and revised Accounting Standards

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

For accounting period beginning 1 January 2015, there were no mandatory new and revised AASBs issued by the Australian Accounting Standards Board (AASB) which were applicable for adoption by the Group.

II. Standards and interpretations in issue not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2016, and have not been applied in preparing these consolidated financial statements. The impact of the changes to Australian Accounting Standards and Interpretations which are applicable to the Group is set out below.

Impact of changes to Australian Accounting Standards and Interpretations

Adoption of the following amendments will result in changes to the Group's accounting policies on recognition and measurement:

- **AASB 9 Financial Instruments', and the relevant amending standards**

  AASB 9 issued in December 2009 introduced new requirements for the classification and measurement of financial assets. AASB 9 was subsequently amended in December 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in December 2013 to include the new requirements for general hedge accounting. Another revised version of the standard was issued in December 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. This will become mandatory beginning 1st January 2018. Key requirements of AASB 9 are:

  - all recognised financial assets that are within the scope of AASB 139 'Financial Instruments: Recognition and Measurement' are required to be subsequently measured at amortised cost or fair value or fair value through other comprehensive income.
  - with regard to the measurement of financial liabilities designated as at fair value through profit or loss, AASB 9 requires that the amount of change in fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under AASB 139, the entire amount of the change in fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
  - in relation to the impairment of financial assets, AASB 9 requires an expected credit loss model, as opposed to an incurred credit loss model under AASB 139. In this case, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
  - the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in AASB 139. Under AASB 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. Moreover, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

The Company had adopted AASB 9 issued in December 2009, as amended in December 2010, that specify requirements for classification and measurement of the financial instruments. These chapters require financial assets to be classified on the basis of the business model within which they are held and their contractual cash flow characteristics. The Company's date of initial adoption was 1 January 2011.

Arab Bank plc intends to early adopt the remaining parts of IFRS 9 in 2016. The directors of the Company anticipate that full adoption of AASB 9 in 2016 may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of AASB 9 until the Group undertakes a detailed review.

- **AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation**

  The amendments apply prospectively for annual periods beginning on or after 1 January 2016. The amendments to AASB 116 'Property, plant and equipment' prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to AASB 138 'Intangible assets' introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

  - when the intangible asset is expressed as a measure of revenue; or;
  - when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Currently, the Group uses the straight-line method for depreciation and amortisation for its property and equipment and intangible assets, respectively. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, it is not anticipated that the application of these amendments to AASB 116 and AASB 138 will have a material impact on the Group's consolidated financial statements.

- **IFRS 16 Leases**

  The new standard will be effective for annual periods beginning on or after 1 January 2019. IFRS 16 supersedes IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases – Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The key features of IFRS 16 are as follows:

  Lessee accounting

  - Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value
  - A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities
  - Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease
  - IFRS 16 contains disclosure requirements for lessees

  Lessor accounting

  - IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating or finance leases, and to account for those two types of leases differently
  - Requires enhanced disclosures to be provided by lessors which will improve information disclosed about a lessor's risk exposure, particularly to residual value risk

The Group, as a lessee, engages only in operating leases and has entered into commercial property leases, leases on motor vehicles and items of office equipment. As at 31 December 2015, the Group does not intend to early adopt the standard and as such any impact on the consolidated financial statements are yet to be assessed.

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

- **Amendments to IAS 7 Statement of Cash Flows**

  IASB has published amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. These are effective for annual periods beginning on or after 1 January 2017, with earlier application being permitted. The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary):

  - Changes from financing cash flows;
  - Changes arising from obtaining or losing control of subsidiaries or other businesses;
  - The effect of changes in foreign exchange rates;
  - Changes in fair values;
  - Other.

  The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition. The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

  Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

As at 31 December 2015, the Group does not intend to early adopt the amendments and as such any impact on the consolidated financial statements are yet to be assessed.

Performance for the Year

This section shows the results and performance of the Group in more detail including the key areas of operating income and expenses and income tax (refer to Notes 4 and 5).

4. Operating profit and expenses

Operating Income

Recognition and measurement

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 using the effective interest rate on the financial 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 continues to be accrued on loans, advances and other receivables when an impairment assessment has concluded that the interest is not recoverable, and an equal and offsetting specific provision for impaired interest is also accrued.

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

Interest expense

Interest expense is recognised on a time proportion basis using the effective interest rate of the financial 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.

Interest income and interest 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.

4. Operating profit and expenses (continued)

Profit before income tax has been determined as follows:

	Consolidated		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Interest income				
Cash and liquid assets	88	198	88	198
Receivables from other financial institutions[1]	1,177	1,095	1,170	1,063
Loans and advances to customers[2]	35,996	35,529	35,996	35,551
Financial assets – at amortised cost	6,460	8,626	6,460	8,626
Interest rate swaps	1,153	1,288	1,153	1,288
Total interest income	**44,874**	**46,736**	**44,867**	**46,726**

[1]Receivables from other financial institutions includes $458 (2014: $318) received from the Arab Bank plc group.
[2]Loans and advances to customers includes $3,845 (2014: $6,149) received from related parties.

	Consolidated		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Interest expense				
Payables to other financial institutions[1]	1,848	1,790	1,848	1,790
Deposits[2]	18,750	20,816	18,750	20,816
Debt securities issued	-	358	-	358
Subordinated debt[3]	2,022	2,279	2,022	2,279
Interest rate swaps	1,792	2,043	1,792	2,043
Total interest expense	**24,412**	**27,286**	**24,412**	**27,286**

[1]Payables to other financial institutions include $3,652 (2014: $6,063) paid to Arab Bank plc group.
[2]Deposits include $892 (2014: $2,330) paid to related parties.
[3]The subordinated debt represents total amount of interest due to Arab Bank plc.

	Consolidated		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Net interest income	**20,462**	**19,450**	**20,455**	**19,440**
Non-interest income/(expense)				
Commission and other fees	2,509	2,322	2,509	2,322
Foreign exchange earnings	1,007	639	1,007	639
Cost of forward exchange contracts	(243)	(608)	(243)	(608)
Loss on disposal of property and equipment	(12)	(11)	(12)	(11)
Other income	95	51	95	51
Total non-interest income	**3,356**	**2,393**	**3,356**	**2,393**
Operating income	**23,818**	**21,843**	**23,811**	**21,833**

Operating expenses

Recognition and measurement

Operating expenses are recognised as the relevant service is rendered, or the related liability is incurred.

Salary and staff costs are recognised over the period in which the employees render the service. Refer to Note 24 Provision for employee entitlements for more information on staff provisions.

Lease 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.

4. Operating profit and expenses (continued)

Depreciation and amortisation - refer to Note 23 Property and equipment for further details on depreciation and Note 19 Intangible assets for amortisation of intangibles.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of other assets or other liabilities.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

	Consolidated		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Staff				
Salaries	11,554	12,217	11,554	12,217
Superannuation	1,247	1,277	1,247	1,277
(Reversal of)/provision for employee entitlements	(294)	351	(294)	351
Training and education	145	178	145	178
Other	947	837	947	837
	13,599	**14,860**	**13,599**	**14,860**
Occupancy				
Rent	2,416	2,394	2,416	2,394
Other	721	824	721	824
	3,137	**3,218**	**3,137**	**3,218**
Depreciation and amortisation				
Amortisation of software	649	600	649	600
Fixture and fittings	246	247	246	247
Property and equipment	183	190	183	190
	1,078	**1,037**	**1,078**	**1,037**
Office expenses				
Marketing and communications	1,010	927	1,010	927
Postage and stationery	315	356	315	356
Subscriptions	307	302	307	302
Business Travel	304	221	304	221
Entertainment	171	161	171	161
Communications	13	16	13	16
Other	291	199	291	199
	2,411	**2,182**	**2,411**	**2,182**
Other				
Information system expenses	2,426	2,533	2,426	2,533
Service and consultation fees	2,015	1,340	2,015	1,340
Other	134	99	134	99
	4,575	**3,972**	**4,575**	**3,972**
Total operating expenses	**24,800**	**25,269**	**24,800**	**25,269**

5. Income tax

Recognition and measurement

Income tax on the loss 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 the Statement of Other Comprehensive Income or in the Statement of Changes 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.

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.

Tax consolidation
The Company entered into a tax sharing agreement with its 100% owned subsidiaries. The Company along with the Trust and Arab Australia Capital Markets Pty Ltd form the tax consolidated group. Under the terms of the agreement, all members of the tax-consolidated group are taxed as a single entity and the Head company is Arab Bank Australia Limited.

(a) Income tax expense

Recognised in the Statement of Profit or Loss

	Note	Consolidated		Company	
		2015 $'000	2014 $'000	2015 $'000	2014 $'000
Current tax expense					
Current year		-	-	-	-
Adjustment for prior year under provision		-	-	-	-
		-	**-**	**-**	**-**
Deferred tax expense					
Recognition of tax losses		(3,935)	(1,074)	(3,937)	(1,077)
Effect of a write down/(increase) in DTA due to reversal/ (increase) in provisions		3,215	(708)	3,215	(708)
Effect of movement in other temporary differences		(21)	44	(21)	44
Change in temporary differences from prior year		-	79	-	79
Effect of concession (research and development)		266	-	266	-
Total income tax credit in the Statement of Profit or Loss		**(475)**	**(1,659)**	**(477)**	**(1,662)**
Recognised in other comprehensive income					
Derivatives (hedging reserve)	15	45	(279)	45	(279)
		45	**(279)**	**45**	**(279)**

5. Income tax (continued)

Reconciliation between tax expense and pre-tax accounting profit:

	Consolidated		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Loss for the year	(1,517)	(4,216)	(1,522)	(4,223)
Total income tax benefit	(475)	(1,659)	(477)	(1,662)
Loss excluding income tax	**(1,992)**	**(5,875)**	**(1,999)**	**(5,885)**
Income tax benefit using the Company's domestic tax rate of 30% (2014: 30%)	(598)	(1,762)	(600)	(1,765)
Non-deductible expenses	24	24	24	24
Change in temporary differences from prior year	-	79	-	79
Effect of concession (research and development)	266	-	266	-
Research and Development tax offset	(167)	-	(167)	-
Current tax credit	**(475)**	**(1,659)**	**(477)**	**(1,662)**

(b) Deferred tax assets and liabilities

Deferred tax assets arising from:

	Consolidated 2015 $'000	Consolidated 2014 $'000	Company 2015 $'000	Company 2014 $'000
Provision for employee entitlements	440	528	440	528
Property and equipment	467	442	467	442
Derivative liability	739	784	739	784
Doubtful debts	1,058	4,274	1,058	4,274
Tax loss carry forward*	8,294	4,625	8,299	4,628
Research and development tax offset	428	261	428	261
Other	206	287	206	287
Deferred tax assets	**11,632**	**11,201**	**11,637**	**11,204**
Other	(14)	(13)	(14)	(13)
Total deferred tax liabilities	**(14)**	**(13)**	**(14)**	**(13)**
Net tax assets	**11,618**	**11,188**	**11,623**	**11,191**

*The recognition of deferred tax asset relies on an assessment of the profitability and sufficient future taxable profits. With the recent history of tax losses incurred commencing with the 2012 financial year, the most significant judgements relate to expected future profitability and the assumptions and the key drivers on which forecasts are based.

Profitability is expected to improve and planning strategies support the recognition of deferred tax assets. This takes into consideration both the reliance placed on management's projection of income, reorganisation funding strategies and the use of other initiatives, to improve the profitability of operations from a tax perspective.

5. Income tax (continued)

(c) Movement in temporary differences during the year:

	Consolidated		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Balance as at 1 January	11,188	9,257	11,191	9,261
Provision for employee benefits	(88)	105	(88)	105
Property and equipment	25	(12)	25	(12)
Derivative liability*	(45)	279	(45)	279
Movement in provisions	(3,216)	709	(3,216)	709
Taxation of financial arrangements transition**	-	(115)	-	(115)
Other assets	(1)	2	(1)	2
Movement in tax losses	3,669	989	3,671	988
Other liabilities	(81)	(26)	(81)	(26)
Research and development tax offset	167	-	167	-
Balance as at 31 December	**11,618**	**11,188**	**11,623**	**11,191**

*$150,000 (2014: ($929,000)) of the gross movement in derivative assets and liabilities was recognised in other comprehensive income. Refer to Note 15.
**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".

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.

Lending

The lending assets of the Group are discussed in this section. Further information is provided on loans and other receivables and impairment relating to these financial assets. (Refer Notes 6 to 7).

6. Loans and advances to customers, net

Recognition and measurement

In accordance with the accounting policy disclosed in 'Treasury and Investments' section, trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables' and are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

All loans are subject to continuous management review, to assess whether there is any objective evidence that any loan or group of loans is impaired.

	Consolidated		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Commercial loans*	310,902	240,392	310,902	240,392
Housing loans – other**	274,509	231,135	274,509	231,135
Housing loans – owner occupied**	137,988	127,142	137,988	127,142
Overdrafts	26,452	28,942	26,452	28,942
Bills discounted	5,478	5,623	5,478	5,623
Gross loans and advances to customers	**755,329**	**633,234**	**755,329**	**633,234**
Less:				
Provisions for impairment				
Specific provision	(1,081)	(11,798)	(1,081)	(11,798)
Collective provision	(2,447)	(2,447)	(2,447)	(2,447)
Provisions for impairment	**(3,528)**	**(14,245)**	**(3,528)**	**(14,245)**
Net loans and advances to customers	**751,801**	**618,989**	**751,801**	**618,989**
Current	218,586	193,530	218,586	193,530
Non-Current	533,215	425,459	533,215	425,459
	751,801	**618,989**	**751,801**	**618,989**

* This category includes capitalised commission received in advance of $434,388 (2014: $530,453).

** Includes $37,444k securitised loans. Refer to Note 13 for further details.

7. Provisions for impairment

Recognition and measurement

The Group assesses at each balance sheet date whether there is objective evidence that financial assets excluding derivative assets 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.

Specific provision

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.

Collective provision

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.

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.

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.

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.

7. Provisions for impairment (continued)

	Consolidated		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Specific provisions				
Opening balance	11,798	9,436	11,798	9,436
Specific loan impairment charges*	1,617	2,549	1,617	2,549
Recoveries and writebacks	(607)	(100)	(607)	(100)
Bad debt write offs	(11,727)	(87)	(11,727)	(87)
Closing balance	**1,081**	**11,798**	**1,081**	**11,798**
Collective provisions				
Opening balance	2,447	2,447	2,447	2,447
Collective loan impairment charges	-	-	-	-
Closing balance	**2,447**	**2,447**	**2,447**	**2,447**
Total provisions for impairment	**3,528**	**14,245**	**3,528**	**14,245**

*Total charge for debt provisions is $1,010k (2014: $2,449k). Included in interest income is $1,041k (2014: $1,760k) relating to income on impaired loans and advances to customers. This is fully provided for in the specific provision.

Treasury and Investments

This section covers the financial instruments of the Group including derivatives and financial assets at amortised cost (refer Notes 8 to 9).

I. 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 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.

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

II. 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.

8. Financial assets – at amortised cost

Recognition and measurement

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.

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

	Consolidated		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Floating rate notes	123,510	172,222	123,510	172,222
Investment in bonds	51,291	31,662	51,291	31,662
Bank acceptances	10,000	59,905	10,000	59,905
	184,801	**263,789**	**184,801**	**263,789**
Current	45,418	113,501	45,418	113,501
Non-current	139,383	150,288	139,383	150,288
	184,801	**263,789**	**184,801**	**263,789**

9. 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.

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 2015 the Company recognised a loss of $8,620 (2014: profit of $53,653), 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 Hedging Reserve (Note 15) but are reclassified to current period earnings when the hedged cash flow occurs. Refer to Recognition and measurement section below for details.

During the year ended 31 December 2015 the Company did not sell any swaps designated in cash flow hedge relationships.

Recognition and measurement

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.

9. Derivative assets and liabilities (continued)

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.

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.

	2015			2014		
	Notional value $'000	Fair value asset $'000	Fair value liability $'000	Notional value $'000	Fair value asset $'000	Fair value liability $'000
Interest rate swaps	42,000	-	(2,464)	47,000	-	(2,606)
Total derivative liabilities held for hedging	**42,000**	**-**	**(2,464)**	**47,000**	**-**	**(2,606)**
Forward exchange contracts	24,010	-	(195)	-	-	-
Total derivative liabilities	**66,010**	**-**	**(2,659)**	**47,000**	**-**	**(2,606)**

The following table details the notional principal amounts and remaining terms of interest rate swaps outstanding at the end of the reporting period.

	Average contracted fixed interest rate		**Notional principal value**		**Fair value**	
	2015 %	2014 %	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Less than 1 year	2.6	3.1	15,000	15,000	60	37
1 to 2 years	2.5	2.6	10,000	15,000	61	60
2 to 5 years	4.7	4.7	9,000	9,000	812	901
More than 5 years	6.1	6.1	8,000	8,000	1,531	1,608
Total			**42,000**	**47,000**	**2,464**	**2,606**

The interest rate swaps are reset on a periodical basis. The floating rate on the interest rate swaps is linked to market based interest rate. The Group settles the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates.

Funding and Capital

This section focuses on the Group's funding and capital structure. It covers payables to other financial institutions, deposits, subordinated debt, securitisation, share capital, reserves and retained earnings (refer Notes 10 to 16).

10. Payables to other financial institutions

Recognition and measurement

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 carried at amortised cost. Interest expense is charged to the Statement of Profit or Loss using the effective interest method.

	Consolidated		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Australia – ADIs*	15,578	17,997	15,578	17,997
Overseas				
Arab Bank plc group	11,992	17,128	11,992	17,128
Foreign banks	6,982	2,960	6,982	2,960
Related parties	1,038	475	1,038	475
	35,590	**38,560**	**35,590**	**38,560**

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

11. Deposits

Recognition and measurement

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.

	Consolidated		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Current	25,278	18,204	25,278	18,204
At call	398,096	339,001	398,096	339,001
Term	387,112	380,030	387,112	380,030
Savings	1,395	1,469	1,395	1,469
	811,881	**738,704**	**811,881**	**738,704**
Current	788,047	713,630	788,047	713,630
Non-Current	23,834	25,074	23,834	25,074
	811,881	**738,704**	**811,881**	**738,704**

12. Subordinated debt

Recognition and measurement

The instrument is classified as debt within the Statement of Financial Position and is carried at amortised cost. The related interest expense is recognised in the Statement of Profit and Loss.

Subordinated debt	56,684	54,662	56,684	54,662

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, the ultimate controlling entity of the Group. Under the prudential supervision rules, interest can only be paid when the company derives a profit. The movement in the balance represents accrued interest.

13. Securitisation

Securitisation is a funding, liquidity and capital management tool. It provides the Company with the option to sell mortgage backed securities and increase the Group's funding capacity.

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.

Costs incurred which are directly attributable to the establishment of the Trust as described above 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.

The Table below presents assets securitised by the Group:

	2015 $'000	2014 $'000
Residential mortgage loans (Note 6)	37,444	36,558
Cash and receivables from other financial institutions (Note17(a))*	3,070	3,932
Total securitised assets	**40,514**	**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. Share capital

Recognition and measurement

Ordinary shares are classified as equity. Ordinary share capital is the amount of paid up capital from the issue of ordinary shares.

	Consolidated		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
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 2015 the share capital comprised $62.5m ordinary shares (2014: $62.5m). All issued shares are fully owned and paid by 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 (2014: $nil).

15. Reserves

Recognition and measurement

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 (including both on and off balance sheet exposures). 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.

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

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	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Opening balance	**(1,830)**	**(1,180)**	**(1,830)**	**(1,180)**
Effective portion of changes in fair value of cash flow hedges	150	(929)	150	(929)
Deferred tax on cash flow hedging instruments (Note 5)	(45)	279	(45)	279
Closing balance	**(1,725)**	**(1,830)**	**(1,725)**	**(1,830)**
General reserve for credit losses				
Opening balance	**6,327**	**6,050**	**6,327**	**6,050**
Transfer from retained earnings	-	277	-	277
Closing balance	**6,327**	**6,327**	**6,327**	**6,327**
Total reserves	**4,602**	**4,497**	**4,602**	**4,497**

16. Retained earnings

Opening balance	**51,057**	**55,550**	**50,869**	**55,369**
Transfers to general reserve for credit loss	-	(277)	-	(277)
Net loss	(1,517)	(4,216)	(1,522)	(4,223
Closing balance	**49,540**	**51,057**	**49,347**	**50,869**

Operating Assets and Liabilities

This section outlines the operating assets and liabilities of the Group. Further information is provided on reconciliation of cash flow statement, receivables from other financial institutions, intangible assets, other assets and other liabilities (refer Notes 17 to 21).

17. Notes to the Statement of Cash flows

Recognition and measurement

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.

(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	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Cash	2,362	1,196	2,362	1,196
Receivables from other financial institutions*	72,279	56,815	72,279	56,815
	74,641	**58,011**	**74,641**	**58,011**

*$3,070k (2014: $3,932k) is securitised assets. Refer to Note 13 for further details.

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

	Consolidated		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Loss for the period	**(1,517)**	**(4,216)**	**(1,522)**	**(4,223)**
Add/(less) items classified as investing/financing activities:				
Loss on disposal of property and equipment	12	11	12	11
Add/(less) non-cash items:				
Depreciation	429	437	429	437
Amortisation of intangibles	648	600	648	600
Amortisation of mortgage establishment fees	(40)	71	(40)	71
Increase in provisions for doubtful debts	1,010	2,449	1,010	2,449
Change in hedging revaluations	203	81	203	81
Changes in assets and liabilities:				
Change in prepayments	(131)	(33)	(131)	(33)
Change in interest receivable	366	(254)	366	(244)
Change in interest payable	869	2,377	869	2,377
Change in other liabilities	55	(119)	60	(132)
Change in income tax payable	-	124	-	124
Change in deferred tax balance	(476)	(1,665)	(476)	(1,665)
Change in employee provisions	(294)	351	(294)	351
Net cash provided by operating activities	**1,134**	**214**	**1,134**	**204**

(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.

18. Receivables from other financial institutions

	Consolidated		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Australia – ADIs				
Local banks	69,032	30,866	68,737	30,584
Overseas				
Arab Bank plc group	677	448	677	448
Related parties	15	14	15	14
Foreign banks	2,675	25,598	2,675	25,598
	72,399	**56,926**	**72,104**	**56,644**

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

19. Intangible assets

Recognition and measurement

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. The Group 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 7.

Cost				
Opening balance	8,594	8,047	8,594	8,047
Acquisitions	625	557	625	557
Disposals	(705)	(10)	(705)	(10)
Closing balance	**8,514**	**8,594**	**8,514**	**8,594**
Amortisation				
Opening balance	7,091	6,496	7,091	6,496
Amortisation for period	648	600	648	600
Disposals	(705)	(5)	(705)	(5)
Closing balance	**7,034**	**7,091**	**7,034**	**7,091**
Carrying amounts	**1,480**	**1,503**	**1,480**	**1,503**

Intangible assets comprise computer software only. Costs relating to current software implementation projects not yet available for use are included in other assets (Note 20).

20. Other assets

	Consolidated		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Expenses paid in advance	887	756	887	756
Refundable deposits*	204	305	204	305
Other, including software implementation project costs**	647	598	642	588
	1,738	**1,659**	**1,733**	**1,649**

*Refundable deposits include the funds pledged as a security for operational transactions.
**Included in other assets is $493k (2014: $499k) 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.

21. Other liabilities

Recognition and measurement

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.

Accrued expenses	1,890	1,859	1,890	1,859
Other	322	302	290	271
	2,212	**2,161**	**2,180**	**2,130**

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

Other information/disclosures

This section covers all other disclosures including shares in controlled entities, property and equipment, provision for employee entitlements, fair value of financial instruments, risk management, commitment for expenditures, auditor's remuneration, related parties, contingent liabilities and financial reporting by segments.

The note on fair value of financial instruments discusses the Group's methodology on the measurement of fair value.

And the note on risk management outlines the risks that the Group is exposed to and how these are managed and mitigated.

22. Shares in controlled entities

Recognition and measurement

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

Details of the controlled entity are:

			Company	
	Country of Incorporation	Interest %	2015 $'000	2014 $'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 2015 are $298,766 (2014: $291,834) and $36,679 (2014: $34,599), respectively.

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

23. Property and equipment

Recognition and measurement

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.

	Consolidated			Company		
	Property & equipment $'000	Fixtures & fittings $'000	Total $'000	Property & equipment $'000	Fixtures & fittings $'000	Total $'000
Cost						
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**
Acquisitions	79	40	119	79	40	119
Disposals	(12)	(1,733)	(1,745)	(12)	(1,733)	(1,745)
Balance at 31 December 2015	**2,000**	**3,337**	**5,337**	**2,000**	**3,337**	**5,337**
Accumulated depreciation						
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**
Depreciation for the year	183	246	429	183	246	429
Disposals	(12)	(1,721)	(1,733)	(12)	(1,721)	(1,733)
Balance at 31 December 2015	**1,650**	**2,752**	**4,402**	**1,650**	**2,752**	**4,402**
Carrying amount						
31 December 2014	**454**	**803**	**1,257**	**454**	**803**	**1,257**
31 December 2015	**350**	**585**	**935**	**350**	**585**	**935**

Assets not yet available for use are held in other assets until they can be transferred to property and equipment. Refer to Note 20 for additional information.

As at 31 December 2015, there were no impairment losses in items of property and equipment. Refer to Note 7 for related accounting policy on assessment of impairment.

The cost of property and equipment which is fully depreciated and in use is $3,422k (2014: $4,682k).

24. Provision for employee entitlements

Recognition and measurement

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.

31 December 2015	Long service leave $'000	Annual leave $'000	Total $'000
Balance as at 1 January 2015	**832**	**928**	**1,760**
Provisions made during the year	9	670	679
Provisions used during the year	(121)	(852)	(973)
Balance at 31 December 2015	**720**	**746**	**1,466**
31 December 2014			
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 at 31 December 2014	**832**	**928**	**1,760**

25. Fair value of financial instruments

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

	2015		2014	
	Consolidated		Consolidated	
	Carrying Value $'000	Fair Value $'000	Carrying Value $'000	Fair Value $'000
Assets				
Cash	2,362	2,362	1,196	1,196
Receivables from other financial institutions	72,399	72,399	56,926	56,926
Loans, advances and other receivables	751,801	754,657	618,989	621,961
Financial assets – at amortised cost	184,801	187,842	263,789	267,619
Other financial assets	1,245	1,245	1,160	1,160
Total financial assets measured at fair value	**1,012,608**	**1,018,505**	**942,060**	**948,862**
Liabilities				
Payables to other financial institutions	35,590	35,590	38,560	38,560
Deposits	811,881	813,161	738,704	740,711
Subordinated debt	56,546	56,546	54,662	54,662
Other financial liabilities	2,350	2,350	2,161	2,161
Total financial liabilities measured at fair value	**906,367**	**907,647**	**834,087**	**836,094**

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 9.

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.

25. Fair value of financial instruments (continued)

Payables to other financial institutions

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

Deposits

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

Subordinated debt

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

Fair value hierarchy

The table below analyses financial instruments carried at amortised cost, 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 2015	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Cash	2,362	-	-	2,362
Receivables from other financial institutions	-	72,399	-	72,399
Financial assets – at amortised cost	-	187,842	-	187,842
Loans and advances and other receivables	-	754,657	-	754,657
Other financial assets	-	1,245	-	1,245
Total financial assets	**2,362**	**1,016,143**	**-**	**1,018,505**
Liabilities				
Payables to other financial institutions	-	35,590	-	35,590
Deposits	-	813,161	-	813,161
Subordinated debt	-	56,546	-	56,546
Other financial liabilities	-	2,350	-	2,350
Total financial liabilities	**-**	**907,647**	**-**	**907,647**

25. Fair value of financial instruments (continued)

Fair value hierarchy (continued)

31 December 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Cash	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
Other financial assets	-	1,160	-	1,160
Total financial assets	**1,196**	**947,666**	**-**	**948,862**
Liabilities				
Payables to other financial institutions	-	38,560	-	38,560
Deposits	-	740,711	-	740,711
Subordinated debt	-	54,662	-	54,662
Other financial liabilities	-	2,161	-	2,161
Total financial liabilities	**-**	**836,094**	**-**	**836,094**

26. 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.

26. Risk management (continued)

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 Risk Committee oversees the Risk Management Framework. This includes the management of material risks such as 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 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 Risk Committee.

The Board Audit Committee (BAC) assists the Board in fulfilling their fiduciary and statutory responsibilities by providing an objective non-executive review of the effectiveness of the external reporting of financial and non-financial information, the internal control framework, APRA risk management framework, and the independence and effectiveness of audit activities and any other matter referred to it by the Board.

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 and Compliance 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 Risk Committee ("BRC"). The Board has delegated credit approval authority to nominated Directors with BRC 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.

26. Risk management (continued)

(b) Credit risk (continued)

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

Items categorised in the following table as watch list are subject to a review every 3 months.

	Loans and advances to customers		Receivables from other financial institutions		Financial assets – at amortised cost	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Carrying amount	**751,801**	**618,989**	**72,399**	**56,926**	**184,801**	**263,789**
Non performing loans						
Non performing loans	5,638	16,557	-	-	-	-
Less: specific provision (Note 7)	(1,081)	(11,798)	-	-	-	-
Non-performing loans, net of provision for impairment	**4,557**	**4,759**	**-**	**-**	**-**	**-**
Past due but performing						
0-30 days	36,346	29,690	-	-	-	
30-60 days	2,982	1,718	-	-	-	-
60-90 days	400	154	-	-	-	-
90-120 days	2,810	41	-	-	-	-
Over 120 days	668	1,511	-	-	-	-
Past due but performing	**43,206**	**33,114**	**-**	**-**	**-**	**-**
Neither past due nor non performing	706,485	583,563	72,399	56,926	184,801	263,789
Carrying Amount	**754,248**	**621,436**	**72,399**	**56,926**	**184,801**	**263,789**
Less: specific provision (Note 7)	(2,447)	(2,447)	-	-	-	-
Total carrying amount	**751,801**	**618,989**	**72,399**	**56,926**	**184,801**	**263,789**

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 7 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 7. 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 7.

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.

26. Risk management (continued)

(b) Credit risk (continued)

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.

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 (loan to valuation ratio – LVR)

	Loans and advances to customers	
	2015 $'000	**2014 $'000**
Cash	58	108
Commercial – LVR < 65%	334,285	265,586
Commercial – LVR > 65%	30,883	45,406
Residential – LVR < 60%	58,858	58,243
Residential – LVR > 60% < 80%	296,407	229,828
Residential – LVR > 80% < 90%	16,278	14,341
Residential – LVR >90% < 100%	9,479	8,200
Taxi plates	8,969	11,375
Unsecured	112	147
Total	**755,329**	**633,234**
Less specific provision	(1,081)	(11,798)
Less collective provision	(2,447)	(2,447)
Carrying amount of loans and balances	**751,801**	**618,989**

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

Concentration by economic sector:

Property and business services	292,649	268,716
Construction	189,793	119,750
Retail and wholesale trade	85,688	63,865
Transport and storage	54,463	51,747
Cultural, recreational, personal and other services	44,620	49,704
Health and community services	22,441	27,174
Manufacturing	32,800	19,813
Finance and insurance	11,538	10,785
Other commercial and industrial	21,337	21,680
Gross loans and advances to customers	**755,329**	**633,234**
Specific provisions	(1,081)	(11,798)
Collective provisions	(2,447)	(2,447)
Net loans and advances to customers	**751,801**	**618,989**

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

26. Risk management (continued)

(b) Credit risk (continued)

Derivative exposures

The Group did not hold any derivative assets as at 31 December 2015 (2014: nil).

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 ultimate controlling entity, Arab Bank plc continue to adopt a more conservative approach than required by 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.

Liquidity Coverage Ratio (LCR) comes into effect from 1 January 2015. The LCR requires that on any given day the available high quality liquid assets exceed the net cash outflows for the next 30 days.

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.

The Group has internal securitisation vehicle in place - Petra Trusts, which 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 2015 its liquidity ratio exceeded APRA's minimum requirements and satisfied Arab Bank plc's requirements.

26. Risk management (continued)

(c) Liquidity risk (continued)

The tables below for 2015 and 2014 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 2015 $'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	2,362	2,362	-	-	-	-
Receivables from other financial institutions	72,399	72,399	-	-	-	-
Loans and advances to customers, net	751,801	29,025	53,241	136,320	169,090	364,125
Financial assets - amortised cost	184,801	10,060	-	35,358	98,791	40,592
Other financial assets	1,245	1,041	-	-	-	204
Total financial assets	**1,012,608**	**114,887**	**53,241**	**171,678**	**267,881**	**404,921**
Liabilities						
Payables to other financial institutions	35,590	28,590	3,000	4,000	-	-
Deposits	811,881	472,836	161,488	153,723	20,878	2,956
Derivatives	2,659	90	106	60	61	2,342
Subordinated debt	56,546	-	-	-	-	56,546
Other financial assets	2,350	2,350	-	-	-	-
Total financial liabilities	**909,026**	**503,866**	**164,594**	**157,783**	**20,939**	**61,845**
	103,582	**(388,979)**	**(111,353)**	**13,895**	**246,942**	**343,076**

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
Other financial assets	1,160	855	-	105	-	200
Total financial assets	**942,060**	**131,739**	**32,141**	**202,233**	**199,943**	**376,004**
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
Other financial liabilities	2,161	2,161	-	-	-	-
Total financial liabilities	**836,693**	**453,358**	**161,495**	**139,535**	**19,962**	**62,343**
	105,367	**(321,619)**	**(129,354)**	**62,698**	**179,981**	**313,661**

26. Risk management (continued)

(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 2015 would result in additional income of $3,225,741/$3,275,647 and a direct increase in Shareholders' equity of $2,129,000 (2014: increase/decrease of 200 basis points would result in additional income of $2,752,932/$2,228,579 and increase of Shareholders' equity $2,375,000).

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.

26. 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 2015 $'000's	Weighted Average Effective Interest	Carrying Amount	Less than 1month	1-3 months	3 months to 1 year	1-3 years	More than 3 years
Cash	-	2,362	2,362	-	-	-	-
Receivables from other financial institutions	1.90%	72,399	72,399	-	-	-	-
Loans and advances to customers, net	5.27%	751,801	565,069	21,309	54,126	85,839	25,457
Financial assets at amortised cost	2.94%	184,801	29,097	125,378	30,327	-	-
Total financial assets		**1,011,363**	**668,927**	**146,687**	**84,453**	**85,839**	**25,457**
Payables to other financial institutions	0.63%	35,590	35,090	-	500	-	-
Deposits	2.67%	811,881	473,511	161,488	153,446	20,875	2,561
Subordinated debt	4.04%	56,546	56,546	-	-	-	-
Total financial liabilities		**904,017**	**565,147**	**161,488**	**153,946**	**20,875**	**2,561**
Effect of derivatives		(42,000)	-	-	(42,000)	-	-
		65,346	**103,780**	**(14,801)**	**(111,493)**	**64,964**	**22,896**

31 December 2014 $'000's	Weighted Average Effective Interest	Carrying Amount	Less than 1month	1-3 months	3 months to 1 year	1-3 years	More than 3 years
Cash-	-	1,196	1,196	-	-	-	-
Receivables from other financial institutions	2.32%	56,926	56,926	-	-	-	-
Loans and advances to customers, net	5.91%	618,989	494,789	8,860	55,433	46,345	13,562
Financial assets at amortised cost	3.38%	263,789	138,129	115,607	10,053	-	-
Total financial assets		**940,900**	**691,040**	**124,467**	**65,486**	**46,345**	**13,562**
Payables to other financial institutions	0.55%	38,560	37,060	1,500	-	-	-
Deposits	3.21%	738,704	426,175	152,408	135,181	19,786	5,154
Subordinated debt	4.56%	54,662	54,662	-	-	-	-
Total financial liabilities		**831,926**	**517,897**	**153,908**	**135,181**	**19,786**	**5,154**
Effect of derivatives		(47,000)	-	-	(47,000)	-	-
		61,974	**173,143**	**(29,441)**	**(116,695)**	**26,559**	**8,408**

26. 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:

	2015		2014	
	Base currency $'000	AUD $'000	Base currency $'000	AUD $'000
USD	(17)	(23)	4	5
GBP	9	18	18	35
EUR	4	6	3	5
JPY	-	-	-	-
CHF	2	3	1	1
Other currencies*	120	90	65	49
Total		**94**		**95**

*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 2015	(15,580)	23,370
31 December 2014	(15,902)	23,852

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.

26. Risk management (continued)

(e) Operational risk

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

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

Incidents which resulted or could 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 BAC.

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

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. In November 2014, 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 2015 was $50m (2014: $50m).

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

26. Risk management (continued)

(f) Capital management (continued)

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

	2015 $'000	2014 $'000
Common equity Tier 1 / Tier 1 capital		
Ordinary share capital	62,500	62,500
Retained earnings	49,540	51,057
Less intangible assets and deferred tax assets	(13,139)	(12,745)
Total	**98,901**	**100,812**
Tier 2 capital		
General reserve for credit losses	6,327	6,327
Subordinated debt	50,000	50,000
Total	**56,327**	**56,327**
Total regulatory capital	**155,228**	**157,139**
Risk-weighted assets	**695,185**	**702,558**
Capital ratios		
Total regulatory capital expressed as a percentage of risk weighted assets	22.33%	22.37%
Total common equity tier 1 / tier 1 capital expressed as a percentage of risk-weighted assets	14.23%	14.35%

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 2015 and 2014 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.

27. Commitments for expenditure

Recognition and measurement

An operating lease is a lease whereby substantially all of the risks and rewards incidental to legal ownership of the leased assets remain with the lessor. As a lessee, the Group engages only in operating leases and has entered into commercial property leases, leases on motor vehicles and items of office equipment. The leases have various terms and some property leases include optional renewal periods in the contracts.

There are no restrictions placed upon the lessee by entering these leases. 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.

	Consolidated		Company	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Future operating lease rentals not provided for and payable:				
Not later than one year	2,714	2,424	2,714	2,424
Later than one year but not later than two years	2,531	2,052	2,531	2,052
Later than two years but not later than five years	1,425	2,062	1,425	2,062
Total	**6,670**	**6,538**	**6,670**	**6,538**

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

28. Auditor's remuneration

	Consolidated		Company	
	2015	2014	2015	2014
	$	$	$	$
Audit services				
Audit of the financial report*	267,250	254,750	267,250	254,750
Other regulatory audit services	25,649	9,660	25,649	9,660
	292,899	**264,410**	**292,899**	**264,410**
Non-audit services				
Other services	-	10,369	-	10,369
	-	**10,369**	**-**	**10,369**
Total	**292,899**	**274,779**	**292,899**	**274,779**

*excluding disbursements

The Board Audit and Risk Committee has considered the non-audit services provided by Deloitte Touché Tohmatsu for the years ended 31 December 2015 and 2014 and is satisfied that the provision of these services is compatible with, and did not compromise; the auditor independence requirements of the Corporations Act 2001 and the level of fees were compatible with maintaining auditors' independence.

29. Related parties

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

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly, including any Director of the entity. Key management personnel of Arab Bank Australia Limited and its controlled 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
Mr Saleem J S Shadeed**	Non Executive Director
Ms Therese A S Batshon	Non Executive Director
Mr Joseph Rizk OAM	Managing Director
Mr Bernard Buncle	Chief Financial Officer
Ms Helen Michael	Chief Operating Officer
Mr James Gow	Chief Risk Officer

*Resigned on 22nd April 2015

**Appointed on 22nd April 2015

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

	Consolidated		Company	
	2015 $	2014 $	2015 $	2014 $
Short-term employee benefits*	1,711,247	1,703,508	1,711,247	1,703,508
Other long-term benefits	15,588	16,628	15,588	16,628
Post-employment benefits	159,065	159,557	159,065	159,557
	1,885,900	**1,879,693**	**1,885,900**	**1,879,693**

*Included in short term employee benefits is $125,134 (2014: $121,703) 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.

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 2015, the Company had total loans to key management of $48,075 (2014: $85,761) and deposits received from key management of $67,837 (2014: $70,913) 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.

30. Contingent liabilities

Recognition and measurement

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 and other contingent liabilities are accounted for as off balance sheet items.

Loan assets under committed lending facilities are not recognised until the related facilities are drawn.

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	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
	Face value		Face value	
Credit risk related instruments				
Letters of credit confirmed in the normal course of business	182	73	182	73
Letters of Guarantee given in the normal course of business	5,861	35,653	5,861	35,653
Commitments to extend credit	142,609	169,736	142,609	169,736

Letters of guarantee given in the normal course of business include guarantees for $99,000 (2014: $31,401,000) which are cross guaranteed by Arab Bank plc.

31. Financial reporting by segments

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

32. 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.

Directors' declaration

for the year ended 31 December 2015

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

1. The financial statements and notes, set out on pages 18 to 71, 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 2015 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 2015.

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 OAM
Director

Geoffrey C E Wild AM
Chairman

Dated at Sydney this 2nd day March 2016

Arab Bank Australia