

# Credit Analysis



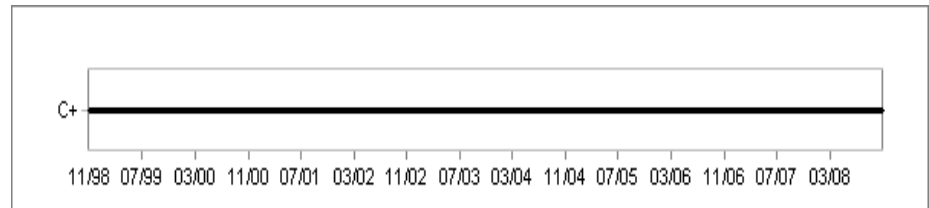
December 2008

## Arab Bank Plc

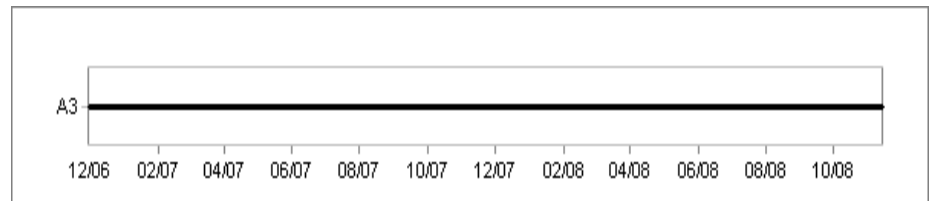
Amman, Jordan

### Summary Rating Rationale

#### Rating History – Bank Financial Strength Rating



#### Rating History – Long-Term Local Currency Deposit Rating



Moody's assigns a bank financial strength rating (BFSR) of C+ to Arab Bank Plc, which translates into a Baseline Credit Assessment (BCA) of A2. The rating derives from Arab Bank's dominant franchise as the largest bank in Jordan as well as from the group's geographic diversification thanks to its international presence through branches and subsidiaries catering to the banking needs of Arab-related businesses. The BFSR also reflects the bank's strong profitability, liquidity and generally very good financial fundamentals. Concurrently, the rating is constrained by certain asset concentrations as well as by the bank's exposures to some countries with high economic and political risks.

Arab Bank's long-term global local currency (GLC) deposit rating is A3. It is based on the bank's BCA of A2, but is constrained by Jordan's A3 local currency deposit ceiling (LCDC). We believe that, due to its importance, there is a very high

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This Credit Analysis provides an in-depth discussion of credit rating(s) for Arab Bank Plc and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website. [Click here to link.](#)



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probability that systemic support would be extended to the bank by the government in case of need. However, given the level of the LCDC, this support assessment does not lead to any uplift in the bank's A3 GLC rating.

Arab Bank's Dubai branch was assigned foreign currency deposit ratings of A3/Prime-2. These ratings also act as ceilings for foreign currency deposits of Arab Bank branches operating in countries with rating ceilings higher than A3. The Dubai branch ratings were able to 'pierce' the Ba3/Not Prime foreign deposit ceiling for Jordan-domiciled banks thanks to Arab Bank's particular structure of geographic diversification, with approximately 70% of the bank's assets, funding and revenues lying outside Jordan, in 30 different countries. Moody's believes that foreign currency deposits outside Jordan lie beyond the jurisdiction of the Jordanian authorities and hence are not directly subject to Jordanian transfer risk.

The outlook on all of Arab Bank's ratings is currently stable as the bank has not been affected by the most recent global financial turmoil given its conservative investment, liquidity and risk profile. Further improvement in asset quality, and deepening of the retail franchise in an improving operating environment, coupled with additional increases in the bank's free capital domiciled in high-rated countries could result in a BFSR upgrade. Any upgrade of Jordan's country ceiling for local or foreign currency deposits would result in an upgrade of the bank's local or foreign currency deposit ratings.

Negative pressure could be exerted on the BFSR in the event of material weakening of asset quality or significant losses from interest rate exposure or deterioration in the bank's overall franchise value. The ratings could also be negatively affected in the event of the bank's capital levels failing to keep pace with growth in total assets or in the event of any drastic change in the group's high liquidity profile. The foreign currency deposit rating will move in tandem with movements in Jordan's foreign currency deposit ceiling.

### Group Structure

Arab Bank is the most international of Arab banks, with a presence in 30 countries. It has an extensive presence in the Middle East & North Africa (MENA) region with branches in Qatar (three), the UAE (eight), Egypt (19), Lebanon (13), Yemen (10), Morocco (10), Algeria (4) and, most recently Libya,<sup>1</sup> (72). Its subsidiaries and associates include Arab Tunisian Bank (a 64.24% stake), a 40% stake in Arab National Bank of Saudi Arabia, 49% in Oman Arab Bank and 49% in Arab Bank – Syria.

Arab Bank's presence in Europe comprises a network of branches in the UK (three), France (two), Spain (two) and Italy (one branch in Rome and one office in Milan). In addition, Arab Bank has also presence in Germany, Austria and Switzerland (see Exhibit 1).

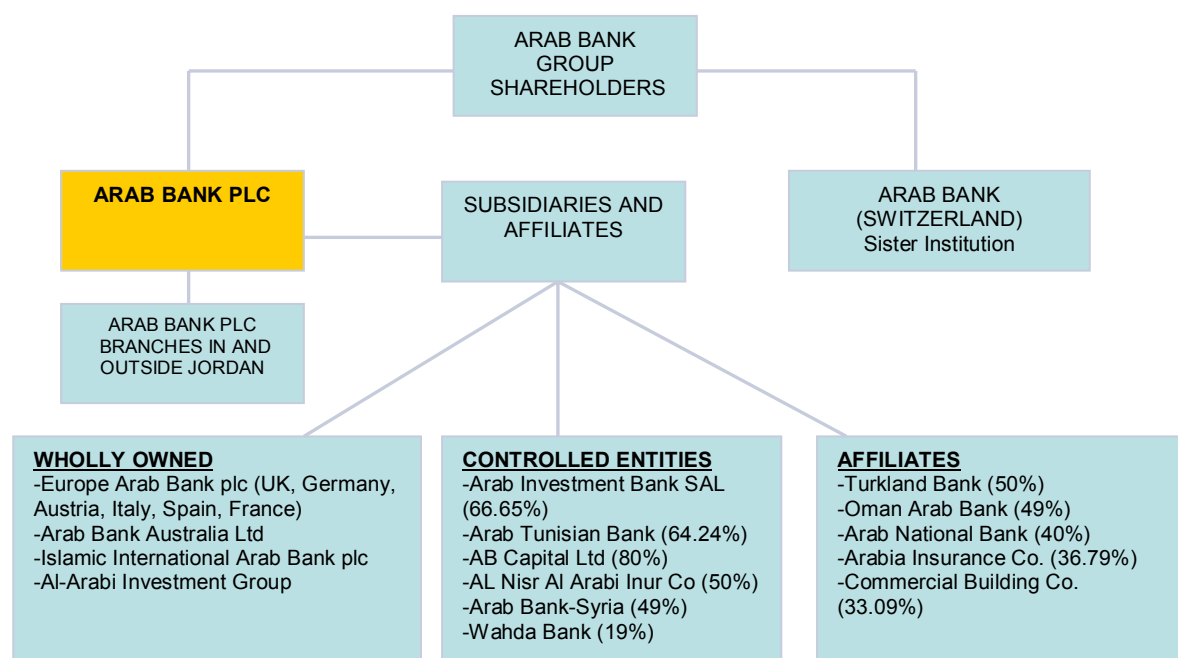
Arab Bank also has a presence in the Asia-Pacific region (through branches in Singapore, a fully owned subsidiary in Australia and representative offices in China, Hong Kong, Kazakhstan and South Korea) and a presence in the US with a federal agency.

Arab Bank comprises five major business segments:

1. The Corporate and Investment Banking business line comprises commercial lending, project and structured finance, trade finance, SMEs and financial institutions.
2. Retail Banking operates in the consumer finance market, providing consumer loans, deposits and credit cards. This division underwent a significant global reorganisation in 2005. Bancassurance operations began in Q3 2006. A partnership has been finalised with SNA (part of AGF/Allianz Group) to sell its products.
3. Global Asset Management and Private Banking serves high-net-worth clients in the Middle East and Europe by providing them with a range of products and services that match their risk profiles.
4. Investment Banking primarily operates through AB Capital Ltd (an investment banking firm based in Dubai).
5. The Treasury is the financing engine of the bank, acting as both the liquidity and market risk manager. The group's global treasury is based in London.

<sup>1</sup> Bought a 19% stake in Wahda Bank in February 2008 with management control, and an option to increase its stake to 51% in the next three to five years.

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**Exhibit 1: Arab Bank Group's Structure**

## Analysis of Rating Considerations

### Discussion of Qualitative Rating Drivers

#### Franchise Value

##### *A reputable brand name underpins Arab Bank's franchise strength*

A solid franchise in the MENA region is the foundation upon which Arab Bank's deposit ratings and BFSR are built. Arab Bank is one of the most prominent and well-known banking institutions in the Arab world, with operations spanning the region.

Arab Bank's brand leadership enables it to maintain strong relationships with leading regional businesses, to leverage its scale and scope of opportunities as a leader in major project financing and to assimilate itself into the economies of many Middle Eastern countries. The bank also has a presence in most Western European countries as well as offices in Asia, which makes Arab Bank the preferred counterparty for foreign banks conducting business in the Middle East.

- **Market Share and Sustainability**

##### *A strong domestic and regional presence drives its formidable franchise*

Arab Bank is the dominant bank in Jordan, accounting around 23% of total banking system assets and with market shares of 25.4% in deposits and 18.6% in loans, while its presence in neighbouring Palestine areas is dominant as it holds 36.7% of local deposits and has dispensed 33% of total loans.

The strong franchise of branches, subsidiaries and affiliates around the world also complements Arab Bank's Jordanian operations and reduces Middle Eastern credit, market and event risks within the group. Around 77% of the bank's total assets are located outside Jordan and Palestine – with 22.6% of total assets in European operations, while 21.1% of deposits are collected outside the MENA region and Jordan, demonstrating the presence of real equity outside the Middle East. The scope of the non-MENA operations also strengthens the bank's ability to withstand event shocks within the MENA area.

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Market shares in MENA countries aside from Jordan and Palestine vary from 2% to 20%, demonstrating the franchise strength that the bank has in the region. Its extensive branch network in the Arab world as well as its presence in international financial centres means that the bank is well positioned to serve any clients that have trade and business links in these countries. Challenges that the bank faces abroad include fierce competition (which results in pressure on margins and a difficulty in increasing its market shares), the standardisation of procedures and the broadening of the product base, as well as increasing the customer base and the cross-selling of products.

That said, it should be noted that, at times of regional crisis, Arab Bank is likely to benefit given that its long history and track record has rightfully earned the bank the reputation of the “flight-to-quality” bank in the Middle East. According to the bank’s management, the bank has never faced an outflow of customer deposits at times of crisis. In fact, it is more common for Arab Bank to experience inflows of new funds at times of regional instability, such as during the 1990-91 Gulf War, which coincided with Jordan’s sovereign default.

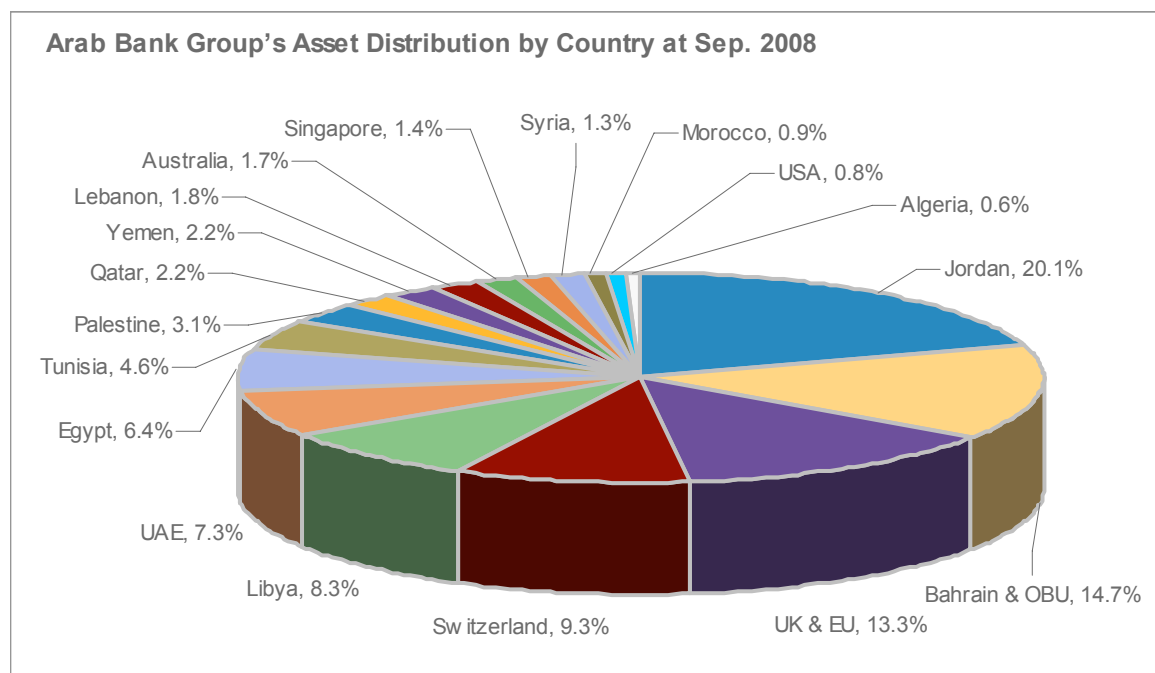
We believe that the franchise value of Arab Bank is quite unique: no other bank in the Arab world has such a regional and international presence, or a comparable network of branches. This enhances the bank’s competitiveness and allows it to provide exclusive banking services to its corporate clients. We attach a great importance to this feature and consider it to be a major positive rating driver, supporting the bank’s C+ BFSR. Looking ahead, further deepening of its real banking franchise in markets other than Jordan could provide additional support to the BFSR.

### ■ Geographic Diversification

#### *A unique geographically diversified asset base supports the ratings*

A distinctive feature of Arab Bank compared with other banks in the Arab world is the geographic diversity of its group assets (see Exhibit 2), which constitutes an important rating driver. The global profile of the bank’s consolidated balance sheet significantly reduces any systemic risks attached to a particular location and reinforces the bank’s solid image and reputation. In particular, we recognise that around 56% of the group’s equity resides in international markets other than Jordan, Arab and North African countries – which means that the group’s equity is safeguarded against unfavourable events in relatively volatile countries and ensures the solvency of the bank in times of distress.

#### **Exhibit 2**



## Arab Bank Plc

Arab Bank Group includes Arab Bank (Switzerland), a sister institution registered in Switzerland as a separate legal entity (see g Exhibit 1) and with a similar shareholding structure to Arab Bank plc. It specialises in investment and asset management for both private and institutional clients and is also perceived as a safe haven by depositors of the bank.

The ratings assigned to the Arab Bank capture its proven ability to function and continue operating independently during regional crises, which we consider to be a key strength given its exposure to politically volatile and less developed markets. The bank has contingency and logistical plans in place enabling it to operate out of Switzerland in case its headquarters in Amman are compromised in any way. As such, the bank's Jordanian depositors are to a certain degree insulated from sovereign and political events in their domicile country.

This feature, combined with the bank's geographic diversification, lifts the deposit ratings assigned to branches located in countries with a deposit ceiling at the upper end of the investment-grade scale to a higher level than Jordan's foreign currency deposit ceiling (Ba3/NP). Accordingly, we have assigned foreign currency deposit ratings of A3/P-2 to Arab Bank's Dubai branch, one notch lower than the bank's BCA of A2 (which maps from its BFSR of C+). However, should the proportion of the bank's assets and equity domiciled in highly rated international markets decline drastically to a point where we would feel that there is an elevated degree of sovereign risk in its books, Arab Bank's ratings could come under pressure.

We also understand that the bank put on hold any possible new acquisitions in the currently volatile global market conditions following its acquisition of the Libyan Wahda Bank in February 2008 for €210 million. Arab Bank had shown intense interest in acquiring banks being privatised (mainly) in the MENA region and in markets where it believes that a large branch network and client base would otherwise take too much time for the bank to establish.

We generally view possible new acquisitions positively as long as they do not compromise the bank's capitalisation level to a material extent and could prove franchise-enhancing over the medium-to-longer term. We feel comfortable with the due diligence exercise that the bank carries out in such cases and – given its conservative profile – we would not expect any acquisitions to prove detrimental to the bank's financial position. The bank wishes to further enhance its capital base before it considers any new acquisitions.

### ■ Earnings Stability

#### ***Corporate and commercial operations underpin core income, although retail and private banking are increasingly contributing to the group***

In general, Moody's considers retail and small business banking, asset management and fiduciary/transaction servicing income to be relatively stable, while we view wholesale banking, mid-market banking and insurance to be relatively volatile. Approximately 36% of Arab Bank's 2007 net banking revenues originated from its consumer/retail banking activities as well as from its asset management and private banking services, while the balance comes from its corporate division, investment banking and treasury.

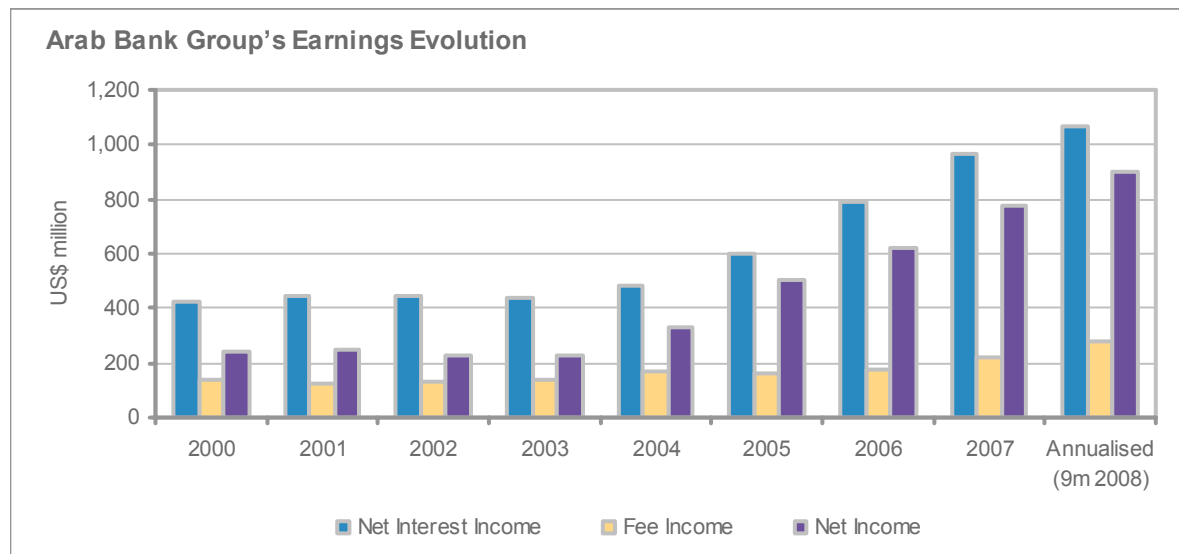
In our opinion, Arab Bank has a strong dedicated retail management team in place, which co-ordinates the retail strategy for the whole group and in markets where the bank has a meaningful branch network to carry out its retail operations. Although the bank has yet to reach the point of having a fully unified standard structure, policies, channels and services in all of the 10 MENA countries in which it has retail banking operations (like other international banks), a serious effort is being made in this regard with the adoption of the latest technologies and an aim to better serve its more than 800,000 retail customers through its 176 branches and 332 ATMs.

Pure retail operations in the form of lending to individuals as a separate business line, including private banking clients, constituted around 15.6% of the group's net credit facilities, but more than 57% of the group's total customer deposits at year-end 2007. Such a structure, we believe, provides relatively stable recurring business to the bank and a highly predictable risk-adjusted earnings stream. At the same time,

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we do not consider Arab Bank's corporate loan book to be volatile as the bank enjoys strong links with certain prime corporates in the region as well as a relatively high level of customer loyalty as a result of its solid brand name in the Arab world.

### Exhibit 3



Arab Bank's excellent track record in earnings growth is more evidence of the group's relatively high earnings stability (see Exhibit 3). As one would expect, the most volatile business line is the treasury, which is mainly driven by market conditions, although we do not regard it as playing a major role in driving the bank's core income. Treasury operations contributed almost 14.1% of the bank's total net revenues during 2007. Results for the first nine month of 2008 indicate another strong performance for Arab Bank despite the difficult global market conditions and losses sustained on its investment book, which were easily absorbed by strong core revenues in the form of net interest and fee income.

#### ■ Earnings Diversification

##### ***A highly diversified business model***

Arab Bank follows a universal banking business model, providing a broad range of financial products and services to its clients, from corporate and investment banking to small-sized retail banking loans. As such, we do not consider Arab Bank to be a mono-line entity, viewing favourably its diversified business model and loan granularity, which support stability and predictability in core earnings.

The group has a number of non-bank subsidiaries offering various financial services such as stockbroking and asset management, providing good opportunities for cross-selling products to Arab Bank's clientele. Following a revamping of the bank's retail business line aimed at standardising procedures, segmenting the client base and optimising the branch network, private banking is also in the process of being reorganised with a view to building a world class private banking business (AB Private Banking) focused on the Middle East. We believe that these initiatives will further diversify the group's earnings over the medium-to-longer term, reinforcing Arab Bank's universal banking status.

Moody's tends to penalise the ratings of banks that are overly dependent on one business line, which could make an institution highly vulnerable to potential changes in market dynamics. Such changes could be sudden and unpredictable with no offsetting earnings stream to protect a bank's economic solvency.

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**Risk Positioning*****A conservative risk profile underpinned by strong liquidity supports the bank during the ongoing global financial turmoil***

Arab Bank has a relatively low market risk appetite, strong liquidity and good risk management ensuring that the bank does not adopt an excessive risk positioning, in line with the relatively conservative risk profile of its senior management. This cautious approach has helped the bank to weather the current global financial storm so far unscathed with no repercussions on its financial standing. The bank's corporate governance framework as well as its internal systems and controls are satisfactory, raising no significant issues of concerns. That said, we do note some level of asset concentration on the balance sheet as well as related-party lending relative to the bank's capital levels and recurring earnings.

**■ Corporate Governance*****A good corporate governance framework, albeit with some related-party lending***

Arab Bank is listed on the Amman stock exchange and has a relatively wide shareholding pattern with the Jordanian social security corporation owning 14.9%, while three entities owned by the wealthy Lebanese Hariri family jointly have another 20.7% stake. The founders of the bank, the Shoman family, have a 4.9% direct shareholding, while the Saudi and Qatari governments have respective shareholdings of 4.5% and 1.7% in the bank. The balance of the shares is held by numerous public investors, mainly Jordanian citizens and nationals of other Arab countries.

The bank's senior management is characterised by its high calibre, as is its middle-level management, providing a thorough and coherent strategic direction. Despite the departure of two senior members of the management team in recent months, including its long-standing chief financial officer who has retired, the bank has been able to hire talented and experienced external and internal replacements and has also strengthened certain key departments that are considered vital for the smooth functioning of the bank.

Overall, we have a very good opinion of the capabilities and banking expertise of the senior management team and feel comfortable with the level of oversight of the group's operations, across all geographies. There appears to be a well-designed framework of responsibilities and accountability at all managerial levels. Looking ahead, we expect sufficient stabilisation in the bank's senior management team that would allow it to function in a properly manner.

The board comprises ten non-executive members and one executive, who holds the dual role of chairman and CEO, while there are six independent directors (although most of the non-executive directors have some kind of affiliation with the bank's major shareholders). Although the segregation of the chairmanship and CEO position is encouraged by the Jordanian regulators, we do not expect this to occur at Arab Bank for some time as the position is currently occupied by Abdel Hamid Shoman, who represents the founders of the bank and is considered a key figure in forming and executing Arab Bank's strategic direction. Various committees have been formed at the board level overseeing the execution of the board's decisions as well as the performance of the senior management.

We also note that there is a degree of related-party lending, which includes both funded and unfunded exposures amounting to around 22.7% of the bank's Tier 1 capital as of December 2007, and which is mainly due to direct credit facilities granted to major shareholders and members of the board of directors, including associated companies. This figure stood at around 15% as of September 2008. However, we believe that all such transactions are carried out on commercial terms and on an 'arm's length' basis. In any case, we do not consider this level of related-party lending to be a negative rating driver for the bank, as we usually express concern only when related-party loans exceed 25% of a bank's Tier 1 capital.

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- **Controls and Risk Management**

***Satisfactory risk management systems in place should help shield the bank from possible unfavourable market conditions in the region***

Arab Bank on the whole maintains a conservative risk profile, which we view positively. We believe that the bank's risk management systems, controls and tools available to manage risks are superior to those of other rated Jordanian banks, and that they are sufficiently sophisticated to provide timely data and information to senior management. Risk management is exercised at several levels of Arab Bank, including the board of directors, the CEO, the various related executive committees, the heads of strategic business units and other supporting units, as well as country heads. The bank generally adheres to good risk management practices as the board approves general risk management policies and the risk appetite and profile of the bank, but also ensures that management maintains an effective and efficient system of internal controls.

An independent risk management group supervises all areas covering credit risk, market risk and operational risk, while the head of global treasury is responsible for liquidity risk and market risks related to treasury functions. Important credit decisions are taken unanimously in credit committees, although we note that business line heads do participate in such committees. The bank has also developed risk management tools and models used for measuring specific risks, including value-at-risk (VaR), risk-adjusted return on capital (RAROC) and a risk rating system that has recently been rolled out across the bank. In addition, the bank will shortly be adopting a new global treasury system project that will allow the global treasurer based in London to receive more accurate and timely information regarding the liquidity position of the group across all geographies.

Although Arab Bank's conservative risk profile shields it from the ongoing financial crisis caused by the US sub-prime loans and volatility in the global markets, we nevertheless believe that, given its international presence, it is more vulnerable to external shocks than other rated Jordanian banks. Emerging markets have not so far been affected to a large degree by the prevailing conditions, but that does not necessarily mean that they will continue to remain immune to problems going forward, especially when it comes to the performance of the property market in the region. Under an unfavourable scenario, Arab Bank's risk management systems and monitoring tools will be put to the test.

In terms of controls and systems, we consider the overall framework in place and the regulatory compliance division responsible for implementing this framework and promoting a high level of awareness of compliance requirements to be satisfactory. That said, we note that the New York branch was scaled down in early 2005 and a material fine was imposed by the US authorities on Arab Bank as a result of an investigation into allegations that its anti-money laundering controls were inadequate, although the bank has never admitted any wrongdoing.

- **Financial Reporting Transparency**

***Good financial disclosure***

Arab Bank's financial statements are prepared under IFRS and the guidelines of the Central Bank of Jordan (CBJ), providing a good level of detailed and transparent information. The bank releases abridged results on a quarterly basis containing limited information about asset quality, capital requirements, business lines and earnings generation.

We consider Arab Bank's disclosure and management discussion in the annual report to be satisfactory, although it is still lagging behind in some areas compared with the annual reports of large international banks. There is a particular need to improve its disclosure in the annual report on credit risk concentrations, including some discussion of large credit exposures, as well as a more thorough description of its stress-testing analysis and expected performance going forward.

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■ **Credit Risk Concentration*****Certain asset concentrations, although with good sector-wise loan diversification***

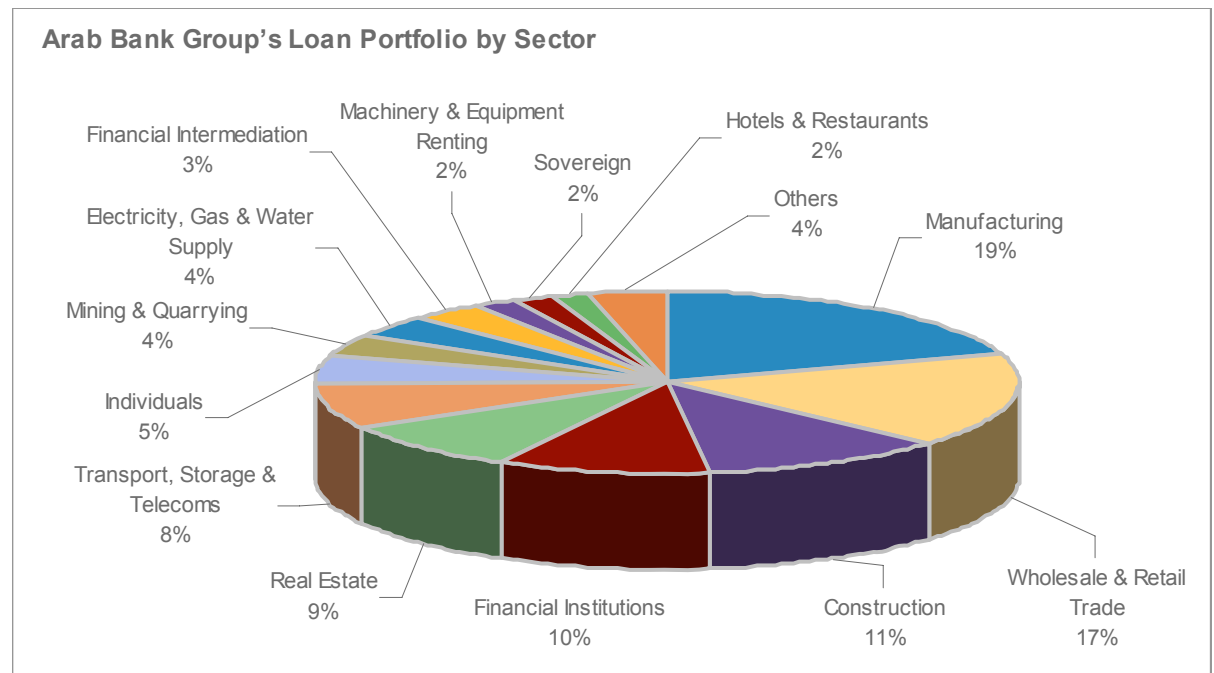
Looking at the group's asset concentrations, we note that the top 20 bank placements comprised around 36% of Arab Bank's Tier 1 capital as of September 2008 or 268% of the group's 2007 pre-provision profits. In addition, the top 20 group borrower exposures (both funded and non-funded) represented around 97.7% of Tier 1 capital or 729% of the group's 2007 pre-provision profits. Although this level of concentration is not a source of serious concern considering the highly rated banks/counterparties and the status of the prime corporates in this list, we nevertheless have some concerns about the size of these exposures, which could lead to earnings volatility in the ongoing negative credit cycle.

In addition, we note that these top exposures increased significantly relative to the bank's core capital when compared with the previous year's position, which suggests that some borrowers may be under stress and, as a result, have been drawing down funds from their commitments at the bank. Regarding its bank placements, following the failure of the US investment bank Lehman Brothers we understand that Arab Bank has shifted its inter-bank placements towards international credit worthy banks that enjoyed explicit government guarantees, even though this meant larger deposit amounts to a fewer number of banks.

Other than these concentrations, Arab Bank Group generally maintains a highly granular credit portfolio, which supports its ratings. As shown in Exhibit 4, the bank's highly diversified loan portfolio is a positive rating driver and reflects its relatively strong presence in every segment, sector and industry. A widely diversified loan book by industry is also a credit positive, with manufacturing, wholesale & retail trade and construction each representing above 10% of total loans and real estate standing at 9.1% as of September 2008.

We also have some concerns regarding the combined exposure to construction and real estate, which exceeds 20% of the group's loan book (see Exhibit 4), given the upsurge in property prices in the region in recent years. Any significant correction in these prices could leave certain related borrowers vulnerable, exposing the bank to heightened credit risk. We note that the property market in Dubai is already experiencing downward pressure, something that could spill over into the wider region, in which Arab Bank has significant exposures. That said, we also note that Arab Bank's property-related high exposures are mainly to reputable contractors and developers that carry out infrastructure projects in the region and usually have strong financials that could allow them to sustain a certain amount of correction in asset prices.

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**Exhibit 4**

- **Liquidity Management**

***A very strong retail deposit franchise underpins a robust liquidity profile***

Arab Bank's liquidity management is satisfactory, with a favourable funding structure geared towards low-cost core deposits that usually roll over at maturity despite their short-term nature. The bank has adequate liquid assets, typically bank placements and corporate bonds rated A1 or above, and other maturing loans to meet its obligations in a timely manner over a 12-month period without resorting to the capital markets or sustaining any reduction in its business activities. Moreover, the group has no direct exposure to US sub-prime investments or structured products and has therefore not suffered any material impact on its performance during 2008.

All of the group's illiquid assets (primary loans) are primarily funded through customer deposits facing low liquidity risk. In addition, despite the bank's Jordanian origin, we do not consider its deposits to have a confidence-sensitive element attached, which may not be the case with other Jordanian banks. On the contrary, Arab Bank enjoys "flight-to-quality" features, in the sense that experience over the years has shown that during crisis periods a considerable volume of fresh deposits come to the bank from other banks in the country and in the region. More recently and in the wake of the global financial turmoil, the Jordanian government has declared that all deposits in Jordan are guaranteed until the end of 2009, providing an extra element of stability to Arab Bank's deposit base.

We believe that Arab Bank has a relatively strong deposit franchise providing a robust liquidity base, which allows the bank to maintain prudent reserves in liquid assets to meet any unexpected liquidity needs. There is no material concentration among the bank's largest corporate depositors (the top 20 depositors form around 10% of total deposits), while there is also a fair level of geographic diversification of customer deposits with 21.8% originating from Jordan, 21.1% from Europe, Far East, Australia and North America, and the balance (57.1%) from other MENA countries.

Arab Bank's deposits including bank deposits and cash margin accounts, fund around 80% of the bank's total liabilities, constituting a positive rating driver. At the same time, we believe that it has comprehensive and well-integrated liquidity risk information systems with limits set taking into account both the risk appetite of the bank and market volatility. Looking ahead, the bank's policy of maintaining at least 40% of its total assets in the form of liquid assets is not expected to change or to be compromised in any

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significant way, especially in light of the ongoing global financial crisis. Robust core liquidity has been at the heart of the group's strategy over the years and is one of its most important strengths, driving its solid reputation. As of September 2008, the group's core liquidity excluding any investments amounted to US\$12.8 billion or 27.6% of total assets, while one-week and one-month global liquidity ratios stood at 12.35% and 3.74%, respectively. This has been successfully managed so far by the group's global treasurer, based in London, who receives local data from all geographies, which are on a consolidated basis presented to the senior asset/liability management committee for important decisions to be taken.

### ■ Market Risk Appetite

#### ***A modest market risk profile***

Arab Bank's market risk appetite remains prudent, with no major open positions that would give grounds for concern or constitute a threat to its solvency in any way. The bank faces limited equity and foreign currency risks, while its interest rate risk profile is relatively attractive in the sense that it is concentrated on the short end with durations of up to one year and no significant long-term or complex interest rate positions.

The group has a relatively stable and uncomplicated balance sheet, with predictable earnings subject to minimal repricing and basis risk. Looking at the structural repricing table of the group, there is only a marginal negative gap within the first bucket of up to three months amounting to 16.4% of the total repricing liabilities in that timeframe. As a result, the bank estimates that a 100-basis-points change in interest rates would have an impact equal to around 1.3% of the equity on its banking book as of September 2008, although it is highly unlikely to see such a change in interest rates for all currencies simultaneously. In addition, most of the debt instruments in the portfolio have floating-rate coupons, while risks arising from fixed-rate coupons are usually hedged by derivatives.

Moreover, the group's investment in quoted equities is not significant and therefore a worst-case scenario of a 50% decline in equity prices would not have a significant impact on group results. The bank estimates such an impact to trim the group capital adequacy ratio (CAR) of 15.08% as of September 2008 by 0.15%. Regarding its foreign exchange position, we note that Arab Bank has a relatively small net foreign exchange group exposure as of September 2008 equivalent to only 0.1% of its Tier 1 capital. Moreover, severe currency devaluations of other soft currencies (mainly currencies in the Arab world) are unlikely to hurt the bank materially given that on a consolidated basis the group had an overall long position in those currencies of only US\$46.5 million as of December 2007. Looking ahead, we expect the bank to maintain its prudent approach to market risk and to continue adhering to its internally set limits as well as to the regulators' prudential limits.

## Regulatory Environment

### ***A constantly strengthening regulatory and supervisory framework***

Although Arab Bank Group is supervised by a number of regulators in the various countries in which it operates, our ratings for the bank consider only our assessment of the regulator in the market where the legal entity Arab Bank plc is domiciled (i.e. CBJ). This is because of the importance of on-site examinations and CBJ's familiarity with local risks, as well as its task of consolidated supervision of Arab Bank. Refer to Moody's Banking System Outlook on Jordan, published in December 2008, to obtain a detailed discussion on the regulatory environment.

## Operating Environment

### ***Challenges remain in the context of the global economic slowdown***

Our assessment of the operating environment for Arab Bank reflects the group's geographically diversified banking operations given that more than 70% of the group's total assets are domiciled outside Jordan and the Palestinian territories. As a result, we apply a more favourable operating environment assessment than in the case of other Jordanian banks. Please refer to Moody's sovereign credit report and Banking System Outlook on Jordan for a detailed discussion of the local operating environment.

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## Discussion of Quantitative Rating Drivers

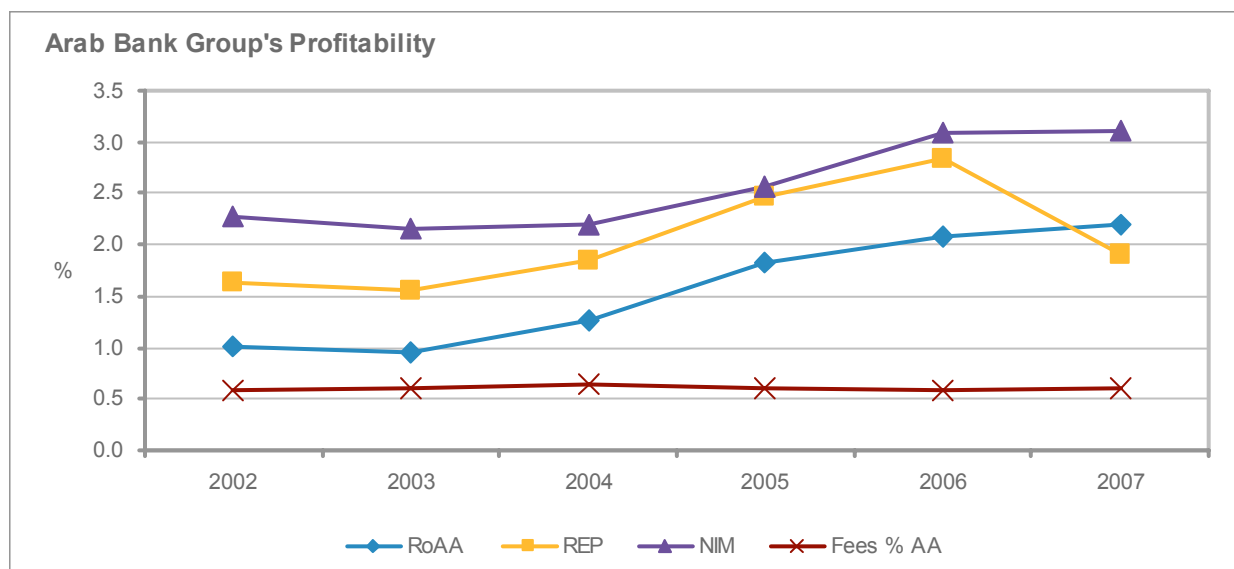
### Profitability

#### *Relatively strong profitability supported by core income*

Arab Bank's size (five times larger than the second-largest bank in Jordan), range of operations and number of countries in which it operates make it difficult to assign a clearly comparable peer group. While profitability is satisfactory by European standards, many of its ratios look relatively weak when compared with those of rated banks in the GCC region.

At the end of 2007, Arab Bank Group reported annual net income growth of 24%, while the return on average assets (RoAA) stood at 2.19%, up from 2.08% in 2006, and its recurring earning power (REP) at 1.91% (see Exhibit 5). We consider such returns to be satisfactory given the conservative strategy and risk-averse culture within the senior ranks of Arab Bank's management, which has an apparent impact on revenue streams and bottom-line profitability. We strongly believe that the bank could easily further enhance its profitability at will, at the cost of its conservative banking approach, which could translate into a less liquid balance sheet and a higher level of risk-weighted assets.

#### Exhibit 5



The main contributor to the bank's operating income is net interest income, accounting for 2.73% of average assets, while the profits booked through the trading book account are usually negligible as only a small proportion of the bank's assets are placed in trading securities. However, we note that a substantial proportion of the bank's non-operating income (accounting for 0.91% of average assets in 2007) represents profits due from associates, a large part of which is through the performance of Arab National Bank, a Saudi-based affiliate in which Arab Bank plc has a 40% stake.

We have a positive view on Arab Bank's earnings quality as it is generated by sustainable operations and is not affected by stock market volatility. Nonetheless, we consider the bank's fee and commission income to be rather low, at 0.61% of average assets, as similarly rated banks usually exhibit a ratio closer to 1%. An increase in this revenue stream would be viewed favourably since it would further enhance earnings quality through revenue diversification.

The bank's net interest margin (NIM) continued to improve in 2007, to 3.11% from 3.03% in 2006, despite increasing competitive pressures, evidence of the bank's strong brand name and pricing power. Looking ahead, we expect the bank's NIM to stabilise and even come under pressure given the tight global credit

## Arab Bank Plc

markets as well as the competitive pressure in the region and thin margins faced by the bank's core business line of corporate lending.

Arab Bank continued its strong profitability performance in the first nine months of 2008, driven by continued business growth and despite certain investment write-downs caused by the global financial crisis. Net loans increased by 28.9% year-on-year and formed 76% of total customer deposits (including cash margin accounts) at the end of September 2008, while the group's net income increased year-on-year by 17.6%. It is worth noting that such performance came on the back of losses on financial assets in the region of US\$29 million, including an exposure to the failed US investment bank, Lehman Brothers, in addition to a provision for impairment of investments held to maturity of US\$18.6 million mainly stemming from the bank's UK subsidiary.

### Liquidity

#### *Ample liquidity backed by a solid funding base*

Arab Bank has traditionally kept a high level of liquid assets – at both the bank and group levels – which we have considered to be a rating strength. Liquid assets including government securities typically account for around 40% to 50% of total assets at the group and the bank levels. This would enable the bank to repay all inter-bank borrowings without needing to liquidate its own inter-bank assets.

The bank's liquidity policy is to be in a position to face possible pressures originating from political situations in the countries where it operates, which over the years has enabled it to survive regional volatilities and global shocks. A well-diversified and liquid asset structure enables Arab Bank to meet obligations that other banks might find it difficult to achieve. We believe that its enhanced treasury operation could improve returns, while maintaining sufficient liquidity to sustain the bank's repayment reputation.

The bank's strict investment policy envisages investing in paper rated 'A2' or higher, ensuring the good quality and liquidity of the investment book. Arab Bank also has a strong funding profile, which is well-diversified with around one-quarter of group customer deposits originating from Jordan. A large proportion (around 80%) of the group's total deposits is considered to be core, usually rolling over at maturity, thereby limiting any liquidity risk stemming from the bank's nominal negative gap in the first bucket up to one month. At the end of 2007, net loans to customer deposits stood at a comfortable 79%, although increased significantly from 65% in 2006.

Looking quantitatively at Arab Bank's liquidity, we observe that liquidity risk is low, as indicated in Exhibit 6, suggesting that the bank has ample liquidity available in case of immediate need. Illiquid assets (e.g. loans) are mainly funded through deposits, while call and market funding is quite limited. Looking ahead, we expect the bank's strong funding profile to remain intact and to continue to maintain comfortable liquidity despite its gradually increasing leverage in recent years.

#### *Exhibit 6: Arab Bank Group's Liquidity*

<b>Liquidity Ratio (Moody's Estimate)</b>					
<b>(US\$ million)</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Market Funding (Due to Banks + Borrowings)	5,586	3,568	3,241	3,390	2,482
Liquid Assets (Cash & Central Bank + Due from Banks + G-secs + Trading & Investment Securities)	16,252	15,780	13,979	15,199	13,328
Total Assets	38,333	32,465	27,484	27,387	24,544
Moody's Estimated Liquidity Ratio ( [Market Funding-Liquid Assets] % Total Assets)	-27.8%	-37.6%	-39%	-43.1%	-44.2%

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## Capital Adequacy

### *A strong capital base provides the means for future growth*

Arab Bank's CAR at the group level under Basel 1 stood at 22.75% with a Tier 1 ratio of 19.87% at year-end 2007, down from 23.7% and 21.39%, respectively, at year-end 2006. During Q1 2006, Arab Bank Plc increased its capital base by JOD1.080 billion (US\$1.5 billion) through a rights issue, which explains the decline in the bank's capitalisation during 2007. The bank has been utilising its fresh equity by increasing its risk-weighted assets and by expanding its operations in the MENA region with the acquisition of Wahda Bank in Libya. Basel II capitalisation as of December 2007 is also quite strong, with a CAR of 21.05%.

We also view as a positive rating driver the fact that (as of December 2007) the vast majority (86.6%) of the bank's equity resides outside Jordan and Palestine, free from any restrictions and in the form of a basket of currencies of countries with high sovereign ratings. Moreover, we estimate that the bank's equity also benefits from a sizeable hidden value of more than US\$1 billion behind its 40% strategic investment in Arab National Bank, which is booked under the equity method.

At end-September 2008, equity levels accounted for a still comfortable 16.5% of total assets despite the more than US\$150 million write-downs in capital reserves due to the decline in the fair value of certain US investments witnessed during the first nine months of 2008. At this level, we believe that the ratio still provides ample comfort to any depositors and bondholders of the bank, while at the same time Arab Bank is in a position to comfortably grow its balance sheet. According to the bank's Basel I and Basel II estimates, its CAR stood at 18.15% and 15.08%, respectively, as of September 2008, excluding the current year's profits.

## Efficiency

### *Adequate efficiency levels*

Arab Bank's efficiency ratios are also at satisfactory levels, although they do not compare favourably with those of other rated Jordanian banks or other banks in the GCC region. This could be attributed to the global foothold that Arab Bank has, with significant operations and assets in European countries as well as in Switzerland and Australia, which usually exhibit a somewhat higher cost base. At the end of 2007, the bank's cost-to-income ratio stood at 49.3% at the group level, more or less at the same level as in 2006 when it stood at 50.3%. The same applies to the non-interest expenses-to-average assets ratio, which remained stable at 1.86% in 2007.

That said, we note that personnel expenses, accounting for almost 51.4% of the group's non-interest expenses, are almost completely covered by the group's share of the associated companies' profits and that other operating expenses are also almost fully compensated for by the group's recurring non-interest income. Such a cost cover is sufficient to remove any level of vulnerability in the group's performance. We do not expect the bank's efficiency ratios to deviate substantially over the short-to-medium term. Nine-month results in 2008 point to a 15.8% year-on-year increase in the group's non-interest expenses.

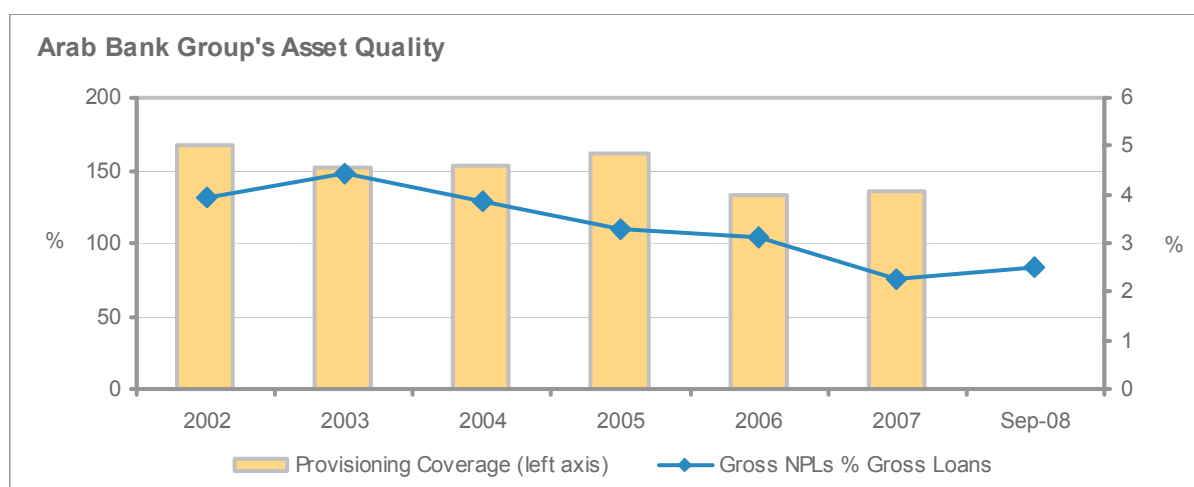
## Asset Quality

### *Improving asset quality, although with challenges ahead*

Arab Bank's asset quality indicators for 2007 saw a further improvement from the previous year, with the ratio of gross non-performing loans (NPLs) to total loans declining to 2.26% from 3.12% in 2006. Despite the robust gross loans growth of almost 36% during 2007, gross NPLs in absolute terms in fact declined marginally by 1.5% compared with an increase of 5.4% in 2006.

Moreover, loan loss provisions were still kept at healthy levels given that total loan loss reserves including any general provisions equated to almost 135% of gross NPLs at year-end 2007 against 133% the year before (see Exhibit 7). In addition, almost 20% of the total loan book is collateralised by mortgages and another 11% by financial guarantees and pledged cash deposits. Given the size and diversity of the bank, we believe that these asset quality indicators are satisfactory, comparing well with those of other highly rated regional banks.

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**Exhibit 7**

We are encouraged by the improvement in asset quality indicators in recent years and by the steps being taken to further reduce gross NPLs and note that the bank's provisioning coverage provides a comfortable cushion as it is more than adequate to cover potential unforeseen losses. We consider the bank's very good asset quality to be an important rating driver, underpinning its C+ BFSR.

The credit portfolio is reviewed quarterly in order to determine whether there are sufficient provisions underpinning the bank's standard policy of total provisions exceeding the level of gross NPLs. The standard classification procedure of classifying loans as NPLs of more than 90 days overdue is used, while the fair value of impaired assets is measured in accordance with IAS 39 through the net present value of the expected future cash flows.

Looking at the portfolio of problematic exposures, the list of top 20 overdue credits constitute around 30% of total gross NPLs, with wholesale & retail trade the industry with the highest level of NPLs. A marginal increase in the gross NPLs ratio during the first nine months of 2008, to 2.49% in September 2008 from 2.26% in December 2007, may suggest a reversal of the improving trend witnessed since 2003.

Given the current difficult global market conditions and the accompanying recessionary pressures, we expect the Arab Bank's asset quality to be challenged going forward, with clients involved in real estate, construction and exporting being most vulnerable to cash flow stresses. However, Arab Bank's prudent approach to classifying and provisioning problematic exposures is a positive rating driver providing added reassurance in terms of protecting against possible future loan losses that may arise with the full seasoning of credit extended in recent years.

## Discussion of Support Considerations

### **Moody's assesses a very high probability of systemic support for Arab Bank**

- **Global Local Currency Deposit Rating (Joint Default Analysis)**

Arab Bank's GLC deposit ratings are A3/Prime-2, based on the bank's BCA of A2 (which maps from its C+ BFSR, see Exhibit 8), but constrained by Jordan's A3 LCDC.

Given Arab Bank's importance to Jordan's financial system, due to its significant domestic market share in terms of deposits (of 29%), Moody's assesses a very high probability of systemic support in the event of stress, while Moody's assessment of the support environment in Jordan is high.

The GLC deposit ratings would therefore, in theory, receive an uplift from the bank's A2 BCA. However, given the level of the LCDC, this assessment of support has no impact on the ratings and, indeed, the LCDC, as noted above, constrains them.

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### ■ Foreign Currency Deposit Rating

The foreign currency deposit rating for Arab Bank is constrained by Jordan's foreign currency deposit ceiling of Ba3/NP.

However, the bank's Dubai branch has been assigned a foreign currency deposit rating of A3, reflecting Arab Bank's particular structure of geographic diversification, with approximately 70% of the bank's assets, funding, capital and revenues lying outside Jordan, in 30 different countries.

Moody's believes that, given the diversity of locations of Arab Bank's foreign currency deposits, the likelihood that these deposits would be caught up in any possible Jordanian foreign currency moratorium is significantly reduced, and therefore that these non-Jordanian deposits carry a much lower Jordanian transfer risk.

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**Exhibit 8: Mapping the BFSR to the Baseline Credit Assessment (BCA)**

The discussion of qualitative and quantitative rating drivers presented in this report forms the analytical basis for assigning a bank financial strength rating (BSFR) of C+ to Arab Bank Plc.

BFSRs are Moody's opinions on the intrinsic safety and soundness of a bank enterprise and, in effect, address the susceptibility of a particular institution to financial distress.

The BFSR array of ratings is not on Moody's traditional rating scale (Aaa, Aa, etc.). However, there is a useful method for translating BFSRs to Moody's traditional scale - the Baseline Credit Assessment, which in effect measures a bank's stand-alone default risk assuming there is no systemic or other external support.[1]

Arab Bank's C+ BFSR maps to a Baseline Credit Assessment of A2, but, considering Jordan's LCDC, its local currency deposit ratings are constrained at A3/P-2.

BFSR/Baseline Credit Assessment Mapping for Arab Bank Plc	
BFSR	Baseline Credit Assessment (BCA)
A	Aaa
A-	Aa1
B+	Aa2
B	Aa3
B-	A1
<b>C+</b>	<b>A2</b>
C	A3
C-	Baa1
C-	Baa2
D+	Baa3
D+	Ba1
D	Ba2
D-	Ba3
E+	B1
E+	B2
E+	B3
E	Caa1
E	Caa2
E	Caa3

[1] Please see "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", March 2007

## Arab Bank Plc

## Company Annual Statistics

Arab Bank Group					
	12/31/07	12/31/06	12/31/05	12/31/04	12/31/03
<b>Summary Balance Sheet (US\$ million)</b>					
Cash & Central Bank	2,856	1,834	3,023	3,322	3,076
Due from Banks	6,597	7,712	5,272	5,180	5,367
Government Securities	3,332	3,646	2,765	2,613	2,165
Trading Securities	2,992	2,266	2,554	3,336	2,249
Investment Securities	475	322	365	748	471
Other Liquid Assets	--	--	--	--	--
Gross Loans	20,093	14,779	12,375	11,451	10,716
Loan Loss Reserves (LLR)	(610)	(614)	(650)	(677)	(724)
Net Loans	19,483	14,165	11,725	10,774	9,992
Equity in Affiliates	1,459	1,047	825	679	560
Fixed Assets	452	349	272	259	242
Other Assets	689	1,122	682	476	422
<b>Total Assets</b>	<b>38,333</b>	<b>32,465</b>	<b>27,484</b>	<b>27,387</b>	<b>24,544</b>
Customer Deposits	24,722	21,766	19,291	19,548	18,272
Due to Banks	5,586	3,568	3,241	3,390	2,482
Borrowings	--	--	--	--	--
Other Liabilities	1,168	1,246	1,067	1,024	873
<b>Total Liabilities</b>	<b>31,476</b>	<b>26,581</b>	<b>23,599</b>	<b>23,962</b>	<b>21,628</b>
Subordinated Loan Capital	--	--	--	--	--
Minority Interest	88	60	49	36	36
Supplementary Capital	118	101	216	86	28
Shareholders' Equity	6,651	5,723	3,620	3,303	2,853
<b>Total Capital Funds</b>	<b>6,857</b>	<b>5,885</b>	<b>3,885</b>	<b>3,424</b>	<b>2,917</b>
<b>Total Liabilities &amp; Capital Funds</b>	<b>38,333</b>	<b>32,465</b>	<b>27,484</b>	<b>27,387</b>	<b>24,544</b>
Derivatives - Notional Amount	12,032	16,756	9,117	7,336	6,876
Derivatives - Replacement Value	--	--	--	--	--
Risk Weighted Assets (RWA)	24,479	20,476	15,956	14,026	12,401
Contingent Liabilities	16,432	14,169	9,678	9,190	7,766

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## Arab Bank Group

	12/31/07	12/31/06	12/31/05	12/31/04	12/31/03
<b>Summary Income Statement (US\$ million)</b>					
Interest Income	2,221	1,907	1,275	990	915
Interest Expense	(1,254)	(1,118)	(675)	(505)	(477)
Net Interest Income	967	789	600	485	438
FX Income	63	50	48	50	47
Trading Income	(3)	4	5	(2)	17
Fees & Commissions	217	173	163	167	142
Other Operating Income	91	92	353	231	144
Total Non Interest Income	368	318	570	446	350
Operating Income	1,335	1,107	1,170	931	788
Personnel Expenses	(338)	(260)	(262)	(270)	(245)
Other Operating Expenses	(278)	(253)	(195)	(149)	(144)
Operating Funds Flow	718	594	714	513	399
Amortisation / Depreciation	(41)	(44)	(40)	(31)	(29)
Total Non Interest Expense	(657)	(557)	(496)	(450)	(418)
Preprovision Income (PPI)	677	550	674	482	370
Loan Loss Provisions Expenses (LLPE)	(25)	(26)	(24)	(47)	(62)
Non Operating Income	312	265	(13)	(1)	(5)
Pretax Income	964	790	637	433	303
Taxes	(189)	(165)	(133)	(106)	(75)
Net Income	775	625	503	327	228
Minority Interests	(12)	(8)	(5)	(8)	(4)
Net Income (Group share)	763	616	498	319	224
Dividends	(167)	(139)	(86)	(60)	(60)
Transfers to Capital Reserves	(596)	(477)	(412)	(259)	(164)
Other Adjustments	--	--	--	--	--
<b>Summary Balance Sheet - Growth (%)</b>					
Cash & Central Bank	55.69	-39.33	-8.98	7.98	20.92
Due from Banks	-14.46	46.29	1.77	-3.48	4.68
Government Securities	-8.63	31.85	5.81	20.74	12.85
Trading Securities	32.04	-11.26	-23.45	48.35	5.38
Investment Securities	47.41	-11.76	-51.14	58.70	-20.86
Other Liquid Assets	--	--	--	--	--
Gross Loans	35.96	19.42	8.07	6.86	8.04
Loan Loss Reserves (LLR)	-0.59	-5.64	-3.96	-6.45	10.33
Net Loans	37.54	20.81	8.83	7.83	7.87
Equity in Affiliates	39.25	26.89	21.58	21.20	4.95
Fixed Assets	29.19	28.32	5.14	6.84	5.97
Other Assets	-38.65	64.53	43.35	12.76	-6.20
Total Assets	18.07	18.12	0.36	11.58	7.68

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## Arab Bank Group

	12/31/07	12/31/06	12/31/05	12/31/04	12/31/03
Customer Deposits	13.58	12.83	-1.32	6.98	7.92
Due to Banks	56.54	10.08	-4.38	36.59	4.48
Borrowings	--	--	--	--	--
Other Liabilities	-6.28	16.77	4.20	17.30	0.35
Total Liabilities	18.42	12.63	-1.52	10.80	7.19
Subordinated Loan Capital	--	--	--	--	--
Minority Interest	46.20	23.73	35.94	-0.75	16.37
Supplementary Capital	16.69	-53.19	152.33	209.11	-196.14
Shareholders' Equity	16.21	58.09	9.61	15.77	9.13
Total Capital Funds	16.53	51.47	13.46	17.41	11.47
Total Liabilities & Capital Funds	18.07	18.12	0.36	11.58	7.68
Derivatives - Notional Amount	-28.19	83.79	24.28	6.69	-15.96
Derivatives - Replacement Value	--	--	--	--	--
Risk Weighted Assets (RWA)	19.55	28.33	13.76	13.10	--
Contingent Liabilities	15.97	46.40	5.32	18.34	7.35
<b>Summary Income Statement - Growth (%)</b>					
Interest Income	16.48	49.55	28.72	8.20	-10.59
Interest Expense	12.17	65.61	33.64	5.88	-17.71
Net Interest Income	22.59	31.47	23.59	10.73	-1.29
FX Income	27.48	2.85	-3.97	6.54	7.52
Trading Income	-176.77	-10.58	-337.12	-112.50	1,976.16
Fees & Commissions	25.52	5.75	-2.19	17.40	9.30
Other Operating Income	-0.59	-74.08	53.16	60.52	25.56
Total Non Interest Income	15.52	-44.14	27.81	27.51	20.88
Operating Income	20.56	-5.37	25.61	18.18	7.46
Personnel Expenses	30.20	-0.65	-3.09	10.29	11.89
Other Operating Expenses	9.94	29.85	30.88	2.92	19.74
Operating Funds Flow	20.86	-16.70	39.18	28.55	1.24
Amortisation / Depreciation	-6.03	10.05	28.64	7.40	8.10
Total Non Interest Expense	18.13	12.17	10.34	7.54	14.20
Provision Income (PPI)	23.01	-18.29	39.86	30.20	0.74
Loan Loss Provisions Expenses (LLPE)	-2.10	7.30	-49.23	-23.67	-7.01
Non Operating Income	17.70	2,131.79	-1,213.78	79.00	25.12
Pretax Income	22.04	24.11	46.90	42.92	3.05
Taxes	14.35	24.07	25.31	41.01	17.64
Net Income	24.08	24.12	53.92	43.55	-1.02
Minority Interests	48.19	74.44	-41.81	110.32	45.47
Net Income (Group share)	23.76	23.65	56.35	42.41	-1.56

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## Arab Bank Group

	12/31/07	12/31/06	12/31/05	12/31/04	12/31/03
<b>Balance Sheet - % of Total Assets</b>					
Cash & Central Bank	7.45	5.65	11.00	12.13	12.53
Due from Banks	17.21	23.75	19.18	18.91	21.86
Government Securities	8.69	11.23	10.06	9.54	8.82
Trading Securities	7.81	6.98	9.29	12.18	9.16
Investment Securities	1.24	0.99	1.33	2.73	1.92
Other Liquid Assets	--	--	--	--	--
Gross Loans	52.42	45.52	45.03	41.81	43.66
Loan Loss Reserves (LLR)	-1.59	-1.89	-2.37	-2.47	-2.95
Net Loans	50.83	43.63	42.66	39.34	40.71
Equity in Affiliates	3.80	3.23	3.00	2.48	2.28
Fixed Assets	1.18	1.08	0.99	0.95	0.99
Other Assets	1.80	3.46	2.48	1.74	1.72
Customer Deposits	64.49	67.04	70.19	71.38	74.45
Due to Banks	14.57	10.99	11.79	12.38	10.11
Borrowings	--	--	--	--	--
Other Liabilities	3.05	3.84	3.88	3.74	3.56
Total Liabilities	82.11	81.87	85.86	87.50	88.12
Subordinated Loan Capital	--	--	--	--	--
Minority Interest	0.23	0.19	0.18	0.13	0.15
Supplementary Capital	0.31	0.31	0.79	0.31	0.11
Shareholders' Equity	17.35	17.63	13.17	12.06	11.62
Total Capital Funds	17.89	18.13	14.14	12.50	11.88
<b>Income Statement - % of Average Assets</b>					
Interest Income	6.27	6.36	4.65	3.81	3.87
Interest Expense	-3.54	-3.73	-2.46	-1.95	-2.02
Net Interest Income	2.73	2.63	2.19	1.87	1.85
FX Income	0.18	0.17	0.18	0.19	0.20
Trading Income	-0.01	0.01	0.02	-0.01	0.07
Fees & Commissions	0.61	0.58	0.60	0.64	0.60
Other Operating Income	0.26	0.31	1.29	0.89	0.61
Total Non Interest Income	1.04	1.06	2.08	1.72	1.48
Operating Income	3.77	3.69	4.26	3.59	3.33
Personnel Expenses	-0.96	-0.87	-0.95	-1.04	-1.03
Other Operating Expenses	-0.78	-0.84	-0.71	-0.57	-0.61
Operating Funds Flow	2.03	1.98	2.60	1.97	1.69
Amortisation / Depreciation	-0.12	-0.15	-0.15	-0.12	-0.12
Total Non Interest Expense	-1.86	-1.86	-1.81	-1.73	-1.77
Provision Income (PPI)	1.91	1.84	2.46	1.85	1.56
Loan Loss Provisions Expenses (LLPE)	-0.07	-0.09	-0.09	-0.18	-0.26
Non Operating Income	0.88	0.89	-0.05	0.00	-0.02

## Arab Bank Plc

## Arab Bank Group

	12/31/07	12/31/06	12/31/05	12/31/04	12/31/03
Pretax Income	2.72	2.64	2.32	1.67	1.28
Taxes	-0.53	-0.55	-0.49	-0.41	-0.32
Net Income	2.19	2.08	1.83	1.26	0.96
Minority Interests	-0.03	-0.03	-0.02	-0.03	-0.02
Net Income (Group share)	2.15	2.06	1.82	1.23	0.95

Income Statement - % of Operating Income

Interest Income	166.42	172.24	108.99	106.36	116.17
Interest Expense	-93.97	-101.00	-57.71	-54.24	-60.54
Net Interest Income	72.44	71.24	51.28	52.12	55.62
FX Income	4.74	4.48	4.12	5.39	5.98
Trading Income	-0.25	0.40	0.42	-0.22	2.10
Fees & Commissions	16.24	15.60	13.96	17.93	18.05
Other Operating Income	6.82	8.28	30.21	24.78	18.24
Total Non Interest Income	27.56	28.76	48.72	47.88	44.38
Operating Income	100.00	100.00	100.00	100.00	100.00
Personnel Expenses	-25.35	-23.47	-22.36	-28.98	-31.05
Other Operating Expenses	-20.81	-22.82	-16.63	-15.96	-18.33
Operating Funds Flow	53.84	53.71	61.01	55.06	50.62
Amortisation / Depreciation	-3.10	-3.98	-3.42	-3.34	-3.68
Total Non Interest Expense	-49.26	-50.27	-42.41	-48.28	-53.06
Preprovision Income (PPI)	50.74	49.73	57.59	51.72	46.94
Loan Loss Provisions Expenses (LLPE)	-1.89	-2.33	-2.05	-5.08	-7.86
Non Operating Income	23.40	23.97	-1.12	-0.11	-0.60
Pretax Income	72.25	71.37	54.42	46.53	38.48
Taxes	-14.18	-14.95	-11.40	-11.43	-9.58
Net Income	58.07	56.42	43.02	35.10	28.90
Minority Interests	-0.91	-0.74	-0.40	-0.87	-0.49
Net Income (Group share)	57.16	55.68	42.62	34.24	28.41

Profitability Indicators

Return on Average Assets (%)	2.19	2.08	1.83	1.26	0.96
Return on Shareholder's Equity - period end (%)	11.47	10.77	13.77	9.65	7.85
Recurring Earning Power [1]	1.91	1.84	2.46	1.85	1.56
PPI (%) Avg Total Capital Funds	10.63	11.27	18.43	15.19	13.37
Interest Expense (%) Interest Income	56.47	58.64	52.95	51.00	52.12
Interest Income (%) Avg Interest Earning Assets [2]	7.14	7.33	5.46	4.47	4.50
Interest Expense (%) Avg Interest Bearing Liabilities [3]	4.51	4.67	2.97	2.31	2.38
Net Spread (%) [4]	2.63	2.65	2.50	2.16	2.12
Net Interest Margin (%) [5]	3.11	3.03	2.57	2.19	2.16
Non-Interest Income (%) Operating income	27.56	28.76	48.72	47.88	44.38
Income Tax (%) Pre-tax Income	19.62	20.94	20.95	24.56	24.89

## Arab Bank Plc

## Arab Bank Group

	12/31/07	12/31/06	12/31/05	12/31/04	12/31/03
<b>Efficiency Indicators</b>					
Non Interest Expense (%) Avg Assets	1.86	1.86	1.81	1.73	1.77
Cost to Income Ratio (%) [6]	49.26	50.27	42.41	48.28	53.06
Personnel Expenses (%) Avg Assets	0.96	0.87	0.95	1.04	1.03
Personnel Expenses (%) Operating Income	25.35	23.47	22.36	28.98	31.05
Personnel Expenses (%) Non Interest Expense	51.46	46.69	52.72	60.02	58.53
<b>Liquidity Indicators</b>					
Net Loans (%) Customer Deposits	78.81	65.08	60.78	55.12	54.68
Net Loans (%) Total Deposits [7]	64.28	55.91	52.04	46.97	48.15
Average Net Loans (%) Average Customer Deposits	72.38	63.06	57.93	54.91	54.70
Average Net Loans (%) Average Assets	47.53	43.19	41.00	39.99	40.68
Liquid Assets (%) Total Assets [8]	41.16	47.61	49.53	52.77	52.38
Customer Deposits (%) Total Deposits	81.57	85.92	85.61	85.22	88.04
Customer Deposits / Shareholders' Equity (Times)	3.72	3.80	5.33	5.92	6.41
Due from Banks (%) Due to Banks	118.10	216.13	162.64	152.81	216.23
<b>Loan Portfolio Quality Indicators</b>					
Problem Loans (%) Gross Loans	2.26	3.12	3.27	3.85	4.44
Problem Loans (%) (Shareholders' Equity + LLR)	6.25	7.27	9.48	11.09	13.30
(Problem Loans - LLR) (%) Shareholders' Equity	-2.35	-2.67	-6.78	-7.13	-8.69
Loan Loss Reserve (%) Gross Loans	3.04	4.15	5.25	5.91	6.75
Loan Loss Provision Expenses (%) Preprovision Income	3.73	4.68	3.57	9.82	16.75
LLP (%) (Loan Loss Reserve - LLP)	4.31	4.38	3.84	7.51	9.36
Loan Loss Provision Expenses (%) Gross Loans	0.13	0.17	0.19	0.41	0.58
Preprovision Income (%) Net Loans	3.48	3.89	5.74	4.47	3.70
Shareholders' Equity (%) Net Loans	34.14	40.40	30.88	30.65	28.55
Loans to Related Cos. (%) Gross Loans	4.57	4.40	6.92	--	--

## Arab Bank Plc

## Arab Bank Group

	12/31/07	12/31/06	12/31/05	12/31/04	12/31/03
<b>Capitalization Indicators</b>					
Tier 1 ratio (%)	19.87	21.39	16.48	17.55	18.18
Shareholders' Equity (%) Total Assets	17.35	17.63	13.17	12.06	11.62
Shareholders' Equity (%) T. Assets + Contingent Liabilities	12.14	12.27	9.74	9.03	8.83
Total Capital funds (%) Total Assets	17.89	18.13	14.14	12.50	11.88
Total Capital (%) T. Assets + Contingent Liabilities	12.52	12.62	10.45	9.36	9.03
Shareholders' Equity (%) Total Capital funds	96.99	97.26	93.18	96.45	97.81
Contingent Liabilities (%) Total Assets	42.87	43.64	35.21	33.56	31.64
"Free" Capital (%) Shareholders' Equity [9]	71.28	75.59	69.68	71.60	71.87
Dividend Payout (%) [10]	21.51	22.33	17.17	18.28	26.44
Internal Capital Growth (%) [11]	10.42	13.17	12.48	9.08	6.26

## Notes:

[1] Recurring Earning Power = Preprovision Income (%) Average Total Assets

[2] Interest Earning Assets = Central Bank + Due from Banks + Government Securities + Trading Securities + Investment Securities + Gross Loans

[3] Interest Bearing Liabilities = Customer Deposits + Due to Banks + Borrowings + Subordinated Debt Capital

[4] Net spread = Interest Income (%) Avg Earning Assets - Interest Expense (%) Avg Interest Bearing Liabilities

[5] Net interest margin = Net Interest Income (%) Average Earning Assets

[6] Cost to Income Ratio = Total non interest expense (%) Operating income

[7] Total deposits = Customer deposits + Due to banks

[8] Liquid Assets = Cash & Central Bank + Due from Banks + Government Securities + Trading Securities + Other Liquid Assets

[9] Free Capital = Shareholders' Equity - Fixed Assets - Equity in Affiliates

[10] Dividend Payout = Dividends (%) Net Income

[11] Internal Capital Growth = Current period's Net income - Current period's Dividends (%) Last period's Shareholders' Equity

## Arab Bank Plc

**Moody's Related Research****Credit Opinion:**

- Jordan, October 2008

**Banking System Outlook:**

- Jordan, December 2008 (111864)

**Rating Methodology:**

- Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology, March 2007 (102639)
- Bank Financial Strength Rating: Global Methodology, February 2007 (102151)

*To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.*

## Arab Bank Plc

Report Number: 113563

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